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REAUTHORIZATION OF THE DEFENSE PRODUCTION ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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REAUTHORIZATION OF THE DEFENSE PRODUCTION ACT

THURSDAY, JULY 24, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC STABILIZATION,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 2220, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the subcommittee) presiding.

Present: Chairman LaFalce, Representatives Vento, Oakar, Shumway, McKinney, and Ridge.

Chairman LAFALCE. The Subcommittee on Economic Stabilization will come to order.

Today our subcommittee will consider the reauthorization of the Defense Production Act, now scheduled to expire on September 30 of this year. The administration is seeking a 5-year extension of the program, and repeal of an annual offsets reporting requirement incorporated within the act under 1984 amendments.

In my view, it is critical that we extend Defense Production Act authorities. The DPA is our country's basic preparedness statute. Our preparedness depends on ensuring that our defense industrial base can respond adequately in the event of an emergency mobilization.

This act helps ensure that readiness. It contains the authorities which the Department of Defense, and other agencies utilize on a day-to-day basis to establish priorities in defense contracting and to implement programs to maintain the mobilization readiness of our industrial and material resources. The contract performance priority and materials allocation authorities of title I represent the sole legal authority for our Government to keep the procurement, production, and deployment of national defense weapons systems on schedule.

Title III contains the authorities, and provides financial incentives for expansion of domestic productive capacity and supply of materials necessary for the national defense.

These efforts are critical. It is increasingly unclear that our defense industrial base would be able to meet the challenge of a serious mobilization effort. Over the past few years, this subcommittee has examined closely the status of key U.S. industries and changing nature of our industrial base. We have found ample and disturbing documentation that that base is seriously and dangerously

eroded. The erosion is continuing as the competitiveness of key sectors continues to decline.

A significant portion of the manufacturing leadership the United States once enjoyed has left our shores. In particular, a number of industries which make up the second- and third-tier levels of defense production, the subcontractor and supplier levels, have shrunken, and in some cases, virtually disappeared. These are the companies that supply the essential elements, components, parts, minerals, and materials to our prime defense contractors, and we are losing them.

In addition, we are increasing our dependence on foreign sources for many of the basic materials, minerals, and processes which are absolutely vital to our defense programs. The reliability of some of these foreign sources cannot be assured.

The United States cannot remain a first-rate world power, with a second-rate industrial base. We might have the most sophisticated weapons systems in the world, but if we do not have the industrial capacity to produce them quickly and efficiently when needed, we place ourselves in serious jeopardy.

Clearly, we cannot return to the totally self-sufficient days of the past. Neither the economic complexities of today's world, nor our security pacts with our allies, would permit that. However, it makes elementary common sense to make our country more secure by devoting a very modest amount of the defense dollars we spend every year, to addressing our deteriorating defense industrial base. DPA is a small program, but an important one.

Despite the importance of the program, I do not believe that the 5-year extension the administration seeks is appropriate. The authorities granted under the DPA are as broad as they are critical. In the past we have extended the program for no more than 2½ years, in order for Congress to adequately oversee how those broad authorities are being applied.

I do not think that now is the time to change that practice. Criticism has been levied in the past that projects did not adequately justify the national security benefits to be derived and/or the economic cost associated with the financial incentives provided, or that they did not adequately address identified weaknesses in our industrial base. This subcommittee intends to monitor the program closely to insure that these projects are effectively targeted to address real weaknesses in our defense industrial base.

The subcommittee has already considered the need for retention of the offsets reporting requirement in detail at the hearing held on June 18. I would, however, like to take this opportunity to emphasize that I do not believe there is any justification whatever for the administration's recommendation that the requirement be repealed. That requirement is the only means we now have of determining how the increasing demand for offsets may be adversely affecting our industrial base. The total inadequacy of the administration's initial offsets report makes continuation of the requirement all the more critical.

We are happy to have with us today the following witnesses to discuss the current DPA Program and help the subcommittee assess the need for reauthorization: Gen. Julius W. Becton, Jr., Director of the Federal Emergency Management Agency; Richard

Donnelly, Director of Industrial Resources, Department of Defense; and Paul Freedenberg, Assistant Secretary of Trade Administration, Department of Commerce.

Congresswoman Oakar.

Ms. OAKAR. Mr. Chairman, thank you for having this hearing. I want to associate myself with your remarks, and I do want to just say that I have a deep concern about our national defense in terms of what is being done by the Department of Defense and others relative to warning the administration about the critical nature of the number of heavy manufacturing industries that are going under, so that we are currently importing so many things for our national defense.

I am very concerned about that, and I look forward to hearing some kind of responses and questions I would have of that nature.

Chairman LAFALCE. Thank you very much.

General Becton, why don't you begin.

STATEMENT OF GEN. JULIUS W. BECTON, JR., DIRECTOR, FEDERAL EMERGENCY MANAGEMENT AGENCY, ACCOMPANIED BY DR. CLAIR K. BLONG, SENIOR PLANNING OFFICER FOR INDUSTRIAL RESOURCE PREPAREDNESS

General BECTON. Thank you, Mr. Chairman.

Chairman LAFALCE. We will put the entire text of everyone's remarks in the record without objection. You may read or summarize as you desire.

General BECTON. I appreciate your doing that. I will offer a few brief remarks.

I appreciate having my first opportunity to appear before your subcommittee to discuss with you the Defense Production Act, and why it should be extended. You have already introduced Paul Freedenberg from the Department of Commerce and Dick Donnelly from the Department of Defense. I have with me from my office Dr. Clair Blong. These are the three experts that will respond to many of the questions.

FEMA is charged, under the provisions of Executive Order 10480, with responsibility for coordinating mobilization preparedness activities of the executive branch and the implementation of Defense Production Act Programs. This act is vital to our national security because it provides the statutory basis for the readiness of the Nation's industrial resources.

We are seeking a simple 5-year extension of the act because it would provide, in our judgment, continuity of defense preparedness programs, strengthen preparedness planning, and demonstrate a firm commitment to maintain the responsiveness of the defense industrial base.

Congress should not allow this vital authority to expire because the consequences could be severe. I am delighted to hear you, Mr. Chairman, pointing out the essentiality of not having that happen. The past 36 years have provided ample proof as to the act's effectiveness.

We are also requesting a repeal of section 309. The basis for our request was presented to the subcommittee at the offset agreement hearings last month.

Extension of the Defense Production Act for 5 years, in our judgment, will be a clear congressional declaration that the United States is seeking to maximize its defense preparedness, and that it can mobilize its military and economic strengths to promote peace among nations.

The Federal Emergency Management Agency, on behalf of the administration, strongly recommends the extension of the Defense Production Act for a 5-year period.

Finally, I respectfully recommend that the committee review the report entitled "Resource Management, an Historical Perspective," which I think has already been presented to your committee. It substantiates the need for the Defense Production Act authority to deal with resources mobilization problems in any defense emergency. This book examines our defense production experiences during the World War II period, the Korean war, and the Vietnam conflict.

Thank you, Mr. Chairman.

[The biography and prepared statement of General Becton can be found in the appendix.]

Chairman LAFALCE. Thank you, General Becton.

The next witness is Mr. Richard Donnelly, Department of Defense.

STATEMENT OF RICHARD E. DONNELLY, DIRECTOR, INDUSTRIAL RESOURCES, OFFICE OF THE ASSISTANT SECRETARY FOR ACQUISITION AND LOGISTICS, DEPARTMENT OF DEFENSE

Mr. DONNELLY. Mr. Chairman, I have a statement. With your approval, I will summarize my remarks.

We look at the Defense Production Act as a keystone statute. It helps industry keep its production programs on schedule, but at the same time, the Defense Production Act's policies and procedures authorizes a number of other standby programs, skeletal forces of people, and organizations that can be augmented rapidly to react in a national emergency.

I hope you will agree that it is unlikely that the United States will have the comparative luxury of an extended warning period for a future war as we had in World War II, so it is essential that we have these programs in place that can be rapidly expanded as necessary.

The Defense Production Act clearly provides these kinds of readiness plans and programs that we are working on today.

As you mentioned, title I gives us priorities as necessary in the marketplace. I underline "as necessary" as the operative words here, because the Defense Department is not out taking everything off the top. The industries that produce for us, whether they be prime contractors, or subcontractors, and vendors, are permitted this priority as necessary to keep their contracts with the United States on schedule. The Defense Production Act operates on an exemption basis.

Title VII of the act has a number of basic authorities that lets us do some of our planning, and let's us put into place some standby procedures that we would use during a national emergency.

Title III, the authority for the President to create or expand new capacity, is now a reality, thanks to you, Mr. Chairman, and members of the committee. We have title III projects underway for the first time in over a decade.

Title III projects are designed to put in new capacity and capability, but I must mention only when we are convinced that the free market forces are incapable of causing capital investment in new plants and equipment. A title III project is a seed money incentive to create a set of circumstances where industry can and will invest in new, more modern manufacturing equipment.

Let me mention a couple of examples of title III projects that are now being implemented. Recovery of superalloy scrap. This is the scrap that is generated in the production of aircraft engines and so forth. In the past this scrap wasn't really recovered, it was sold and usually went overseas. Under a new title III project we will be able to put in the capability for industry to recover the scrap, keep it onshore, and reutilize it.

It is very important, I believe, since DOD gets a benefit as an alternative to stockpiling, something that can be very expensive. Title III helps to create a warm industrial base condition which is clearly essential these days.

A second example of a title III project has to do with a substance called high-purity silicon. When I speak of high-purity silicon, I mean on the order of 99.999-percent pure. It is used in guidance equipment for missiles where specialized operations are involved. There is no source in the United States today for high-purity silicon. It goes into virtually all our important weapons systems, and title III will put in a U.S. source.

The industrial source we have today is 30 miles from the Czechoslovakian border.

Title III is a reality. We are pleased that the program is beginning. The extension of the act for 5 years is a sound idea that does signal the stability to the industry.

In my view, it does not affect in any way the ability of the committee to maintain its oversight over our operations. That could continue in any event.

Mr. Chairman, that completes my statement.

[The prepared statement of Mr. Donnelly can be found in the appendix.]

Chairman LAFALCE. Thank you very much, Mr. Donnelly.

Our next witness will be Mr. Freedenberg.

STATEMENT OF PAUL FREEDENBERG, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. FREEDENBERG. Thank you, Mr. Chairman, and members of the subcommittee. I am pleased to appear before you today to present the Commerce Department's and the administration's support for a 5-year extension of the Defense Production Act.

I would like to begin by emphasizing the importance to our national security of the authorities conferred upon the President by the act. Its extension is vital to our continued defense posture.

Since 1950, the Defense Production Act has formed the basis for much of the civilian support currently provided to existing national

security programs and allowed us to maintain the necessary level of mobilization readiness. When first enacted, its authority was used to carry out virtually all of the economic mobilization measures taken during the military action in Korea. Today, the authority of the act is used by various agencies to implement a number of important programs which support our national defense. Let me use my agency as an example.

Within the Department of Commerce, the authority of the Defense Production Act is implemented largely by the International Trade Administration's Office of Industrial Resource Administration (OIRA), under my jurisdiction. The President has assigned the Secretary of Commerce, by delegation through the Federal Emergency Management Agency, the principal responsibility for administering those aspects of the act which affect the industrial resources of the United States. DPA activities comprise a large part of the overall mobilization responsibilities for which Commerce has authority. These responsibilities extend to support for current defense production and to industrial mobilization and readiness.

Title I of the act authorizes the President to require industry's acceptance of and priority performance on certain defense contracts and orders, and to allocate materials and facilities in support of certain defense and energy programs. To accomplish this, OIRA administers the Defense Priorities and Allocations System (DPAS) to ensure the timely delivery of defense items by providing priority treatment for the purchase of finished items, production materials, equipment, and services by defense agencies, contractors, subcontractors, and their suppliers.

This system also provides the administrative means by which the total industrial resources of the United States could be mobilized in an emergency.

The DPAS regulation was published by Commerce in August 1984. It is a major simplification of two former regulatory systems issued under the authority of the Defense Production Act. Our revision consolidated 16 separate rules into one regulation. We removed much duplication, made the system easier to follow, and we accounted for changes in the way business now operates.

The DPAS is also an important step forward in our program of regulatory reform and, at the same time, contributes significantly to a strengthening of our national security. The regulation affects all U.S. companies that supply any items, from raw materials to completed weapons systems, in support of our national defense programs.

Title III of the act authorizes the President to support the expansion of the Nation's productive capacity to meet our national defense needs through a number of mechanisms.

In 1984, title III was amended to require the administration to submit to the Congress, an annual report on the impact of offsets on the defense preparedness, industrial competitiveness, employment, and trade of the United States. The first report was submitted to this committee earlier this year, and I testified on that. As you know, the Commerce Department was assigned lead responsibility in preparing the report chapter evaluating the impacts of offsets on industrial competitiveness.

The issue of the longrun effects of offsets remains a concern, particularly the effects of technology transfers associated with offsets on U.S. employment, trade, industrial competitiveness, and the cost of U.S. weapons systems.

Title VII of the act contains implementation provisions and provides authority under which representatives of industry and other interests may, with the approval of the President, enter into voluntary agreements serving defense purposes without violating the antitrust laws.

Title VII also grants the authority to correct information from industry on a mandatory basis to support the administration's national security programs. For example, the data for section 309 offsets report was collected under the authority of title VII.

The Commerce Department's NDER program and DPA section 705 data collection authority are also administered by OIRA, which is responsible for organizing and training industry executives who constitute the industrial chapter of the NDER, as well as authorizing utilization of information collection to support the Department's defense industrial base programs.

The missions of each of these important programs contributes to meeting the basic objective of the Defense Production Act, which is to assure the timely availability of industrial products, materials, equipment, and services vital to a strong military readiness posture. The DPA is an essential part of national security planning.

For some time now, Congress, industry, and this administration have expressed serious doubts regarding the capability of the U.S. economy and its industrial base to meet defense production demands in an emergency surge or mobilization. The Defense Production Act authorities are vital to help ensure that the resources and industrial capacity of the United States satisfy national security requirements.

However, our mobilization readiness would be less effective if the basic authority to do so is clouded by uncertainty. Such uncertainty would result from an interim or short-term extension of the DPA. A short extension period could result in an inability on the part of industry and government to plan effectively the production schedules, inventories, and capital investment needed to keep the industrial base healthy and competitive in the world marketplace. The importance of this cannot be overemphasized since the strength of our military defenses is inexorably tied to the economic health of our supporting industries.

Already U.S. industry suffers from the economic fallout of short-term rather than long-term planning. U.S. industries directly involved in defense contracting suffer from the uncertainty of single-year procurement policies which still prevail for most defense contracts. Adding further uncertainty to the industrial support programs with potential interruption in DPA authority can only make the situation worse.

We believe that the most cost-effective and logical approach to revitalizing and maintaining our defense industrial base is to select specific objectives and target them through joint industry-government efforts to solve identified problems. This approach must be planned, long-term and directed. It must evolve around a sound defense procurement system with stable projected requirements, mul-

tiyear contracts and funding, and sufficient long-range goals to allow U.S. industry to develop competitively the production capability to meet defense needs.

Hand-in-hand with this is the need for the uninterrupted authority of the Defense Production Act to call upon and direct that capability to meet peacetime or mobilization requirements. For this reason, the administration supports extension of the act's authority for 5 years.

Mr. Chairman, I will be pleased to respond to questions from you and other members of the subcommittee.

[The prepared statement of Mr. Freedenberg can be found in the appendix.]

Chairman LAFALCE. Thank you very much. I do have a great many questions, but I am going to defer them until the other members of the subcommittee have had an opportunity. Therefore, I will first call upon Congresswoman Oakar.

Ms. OAKAR. Thank you very much.

Mr. Freedenberg, I am a little befuddled by this paragraph on page 3 at the very end of the page. You just said it. "This approach must be planned, long-term and directed. It must evolve around a sound defense procurement system with stable projected requirements * * *" et cetera, et cetera.

Would you care to tell this committee what specific objectives and targeting you are talking about? It is a very generalized sort of bureaucratic statement. What does it mean?

Mr. FREEDENBERG. Again, it is part of the overall desire to be able to plan. When we are talking about DPA, the DPA provides that authority. Unless you have a certainty that the DPA authority is going to be there, and we had an interruption in 1982 as you know, there is some uncertainty as to whether even the Government's ideas and plans are going to be carried out.

Ms. OAKAR. What objectives does the Commerce Department have specifically in maintaining our industrial base, since you just told this committee you have that authority, are charged with that.

Mr. FREEDENBERG. Right.

Ms. OAKAR. What would you say?

Mr. FREEDENBERG. The Office of Industrial Resource Administration has the responsibility to analyze the defense industrial base, and we have had a number of studies. We have particularly had studies, as I think you know, under the 232 authority of the Trade Expansion Act, and most recently we completed a study which was the basis of the President's decision to go ahead with the voluntary restraint agreements on machine tools.

Ms. OAKAR. That isn't a real big help. What restraints are there.

Mr. FREEDENBERG. The President's decision was made in May. There will be a report by November. We are currently beginning our negotiations with the countries that are identified as having a——

Ms. OAKAR. Is there any movement in that direction?

Mr. FREEDENBERG. Yes, there are negotiations about to begin with those countries. We are talking about Japan, Taiwan, Germany, and Switzerland, but we haven't completed them yet.

Ms. OAKAR. You mentioned the reports you put out. There is, of course, the one that I had questioned. My distinguished chairman

and I asked for a GAO report on your report relative to the industrial base and whether or not the erosion of our manufacturing base is such that we must question whether or not in a state of emergency you could accommodate our needs. Of course your report concluded pretty much that we could still import all those metal fasteners and other things, and we wouldn't have any critical need.

Then we had a GAO report done on that report, and somebody decided it was so hot that it had to be classified, so that we haven't fully released it. The conclusions outlined in the 232 decisions that you mentioned, industrial fasteners, ferroalloys, constitute a decision to move a significant portion of our defense industrial base overseas.

Can any of you answer this? Do you think that that movement is consistent with the spirit of the Defense Production Act? General, would you like to take a crack at that?

General BECTON. No, I would like for someone else. Let me call on my expert, Dr. Clair Blong, who has been working on industrial preparedness for a long time.

Dr. BLONG. That is a pretty broad question.

Ms. OAKAR. I think it is specific.

Dr. BLONG. The intent of the Defense Production Act is to maintain a sound industrial capability to meet defense needs, and that can include foreign sources if they appear to be reliable.

Ms. OAKAR. Is that your priority?

Dr. BLONG. Pardon?

Ms. OAKAR. Is that a priority of this administration, to include as part of our whole industrial base other countries? Is that what you are telling this committee?

Dr. BLONG. Well, the industrial base and its structure today makes it quite dependent on foreign sources for various types of commodities and materials. The act itself really cannot be the main vehicle to restructure the whole U.S. economy and industries in regard to foreign dependency.

Ms. OAKAR. Do you believe that the erosion of our manufacturing base has any impact on our national security? For example, LTV which is a corporation that is located in several States, it has its international headquarters in Texas, just announced a chapter 11, and, of course, we recently had the bankruptcy of Wheeling-Pittsburgh, et cetera.

Does this have any negative impact on our security base? You are a former Clevelander, Mr. Donnelly. What do you think?

Mr. DONNELLY. I enjoy being a former Clevelander as a matter of fact. I miss the Cleveland Stadium in the evenings with baseball and hotdogs. I miss the industry that is no longer there as well, too.

Ms. OAKAR. There is some industry there. It is very modern and contemporary, believe it or not, and they have done all the right things, except get the Government to implement certain laws, and to say that this is a priority, that for our national security we had better have a manufacturing base in this country, so I am asking you if you think that the erosion of the domestic steel industry is problematic with respect to our national security.

By domestic I mean our own country. I am not talking about Canada or Taiwan, Japan, or any others.

Mr. DONNELLY. Clearly the Nation is going through a rather painful restructuring, and I think you hit it on the head when you talked about the new facilities that are going on in Cleveland and in other places. The modernization part is the key to this whole thing. Industry is restructuring. There will be parts of it that go offshore. It is a painful restructuring, but my view is that the overall long-term answer is to find ways to permit industry to modernize, to pull itself up with its own bootstraps.

Ms. OAKAR. I want to ask you a specific question, though. I am not asking you to solve the problems of the industry. I want to ask you yes or no. Does the problem of the erosion of our heavy manufacturing industries, supposedly the foundation of the elements used in our national defense, does that have a negative impact, yes or no, on our national security.

Mr. DONNELLY. I think using the steel industry as an example, it is an essential industry. It is important to the underpinnings of the economy. It is going through a restructuring process.

Ms. OAKAR. Forget the economy. I am talking about our national security.

Mr. DONNELLY. And it is important to our national security. It is very difficult to draw a line between the national economy and the national security. They are basically about the same thing.

Ms. OAKAR. I don't think of it as the same thing, and I want to know specifically about national security. Does that have a negative impact on the security of this Nation, if we continue to see the erosion of our manufacturing base.

Mr. DONNELLY. I don't believe we want to see much more erosion. Right now there is adequate steel capacity to support defense programs. In the case of specialty steels, we are in fairly good shape. Carbon steel and some of the other World War II era processes are a difficult set of circumstances, but when you look at this from the view of the Department of Defense, our take of domestic steel production in the carbon steel area, it is on the order of 1.5 percent. Even under a very significant mobilization for war, we would not expect our total demands to grow that much.

Let me finish because this is important and this is what gets lost in the translation. Even though we take a very small percent of, in this case, carbon steel, that is not to say we are not concerned about it.

Ms. OAKAR. You never would know it by the Commerce Department's report, that the Department endorsed, reluctantly I understand behind the scenes, you would never know that you have any concerns.

Mr. DONNELLY. We have programs to deal with our concerns which I would be glad to talk about or provide for the record. Let me finish my story on the steel industry, and I will leave company names out of this, but we have basically only about 1½ sources for armorplate today, and the one major source we have for armorplate is doing pretty well. The company is making money from our acquisitions. The problem is that the armorplate that we buy for tanks and armored personnel carriers and so forth is a small percent of the plant's production.

What the plant needs and others like that plant need is a modern facility. They need to be able to sell the commercial steel in addition to the armorplate for DOD. They need to sell the commercial steel to get the profit from that steel, so they can put investment back into research and development, and buy the next state-of-the-art manufacturing equipment, and that is where it is painful to all of us.

The Defense take is small, but steel is a national industry. It is a commercial economic industry, and the ability for DOD to weigh in there and cure the whole process is very difficult for us.

We do have a number of programs that we have been involved in over the past 2 or 3 years, manufacturing technology programs, which are in our budget this year. It is nominally around $200 million a year. This is where we take manufacturing techniques that have been proven in the laboratory, and attempt to get them scaled up for production and then share that information with industry at large.

New manufacturing techniques like automated material handling, new inspection techniques, these are what elements of the steel industry are beginning to use and we are very pleased to see that happen.

Ms. OAKAR. Let me ask my last question, Mr. Chairman. I would like to ask a question about the unclassified portion of the GAO report which I can refer to, and, of course, I still don't understand why it was classified. Maybe for the record you would like to supply the committee with your rationale for classifying that entire report. The Commerce Department report on the 232 petition indicates that in the event of general mobilization we can maintain Pacific shipping lanes to insure an adequate supply of metal fasteners from Japan, Taiwan, and Korea, but the GAO report points out "In February 1982, about the same time, DOD petitioned Commerce to undertake the fastener investigation, DOD was publicly warning of the increased danger to shipping in the Pacific if war were to break out."

In fact, the report says that the Secretary of the Navy testified before Congress in February 1982 that we would be unable to keep Pacific shipping lanes to Japan from falling under Soviet control. Which version should we believe? If we believe the Secretary of the Navy, then we have to approve the 232 petition for the fasteners, and provide the industry with the relief they require. If, on the other hand, we accept the conclusions in the 232 report, then we don't need the ships that the Secretary of the Navy requested in November 1982.

That would be welcome news in view of the Gramm-Rudman budget ceiling—so which of the two reports, Mr. Freedenberg, do you endorse?

Mr. FREEDENBERG. I don't see a conflict between the two, because you can have industrial fasteners that are necessary for defense that are of a high quality and that are made on shore, while you have a large number of industrial fasteners that are only available abroad for the overall industry.

Industrial fasteners use for defense, the sorts of things you use for high-speed aircraft and for armorplate, are different from the sorts of industrial fasteners you use otherwise.

Ms. OAKAR. We are not talking about different metal fasteners. What the Secretary of the Navy was saying, and the Defense Department was saying, that we would be unable to keep the Pacific shipping lanes—you are really twisting my question around. I am asking you specifically if the Secretary of the Navy has indicated that keeping the Pacific shipping lanes to Japan would be difficult, falling under Soviet control. Why do you endorse the fact that we could indeed import all those fasteners from Taiwan, Korea, and Japan, as you have indicated in your report? Who should we believe? Who has more knowledge about our defense needs, you, your office, or the Defense Department?

Mr. FREEDENBERG. Obviously it is an interagency view. When we put it out it was not put out by the Commerce Department without consultation with the Defense Department, so again there was consultation. There was a decision that even given sealane attrition, that you could obtain the necessary fasteners for mobilization. Obviously you also have ongoing analysis of that. If you had a different conclusion on sealane attrition, you would have a different conclusion on the security of your defense industrial base, and going on from that, we made that conclusion.

That was part of our conclusion on machine tools, so obviously it is not inherently true that you are always going to have confidence that you can obtain all the materials you need for defense mobilization.

Ms. OAKAR. You made the decision about machine tools the day that we brought up our arm of this trade bill that passed in a bipartisan way overwhelmingly in this House. It is extraordinarily belated, and possibly to cover your political erosion on this issue, but the fact is we are talking about a national security issue. I just want to say, Mr. Chairman, I think that I have some real questions about reauthorizing this Defense Production Act, even though in spirit I have always agreed with it, when, in fact, we have this conflict.

They are asking us to accept two contradictory ideas at the very same time. They will not give this committee an adequate explanation about what this does to our national security, and if we are so gung-ho about our national security, then we had better have a strong industrial base in this country.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you.

Mr. McKinney.

Mr. MCKINNEY. I would like to commend the chairman on his opening statement, and I would also like to commend my good friend from Cleveland, but don't you understand that the Taiwanese and Japanese destroyers that we buy when we are attacked are going to escort the Taiwanese and Japanese freighters that are going to hold the Taiwanese and Japanese fasteners for our fighter planes for our national security.

I am sorry. My President and those before him have asked for all this money for defense, and yet I can still remember that Friday night when the last Cadillac rolled off the General Motors plant and that very next Monday morning, tanks rolled off them. Now there aren't any plants. We couldn't gear up to a war economy it we had to.

I brought up with Mr. LaFalce and Mr. Blanchard, who is now Governor of Michigan, the fact that Sun shipyards in Philadelphia were closed. It only takes a day to make a ship. Kaiser made one-and-a-half a day. They fell apart, eventually, most of them, but he made them, and we won the war. It takes 5 to 6 years under any circumstances to build a new shipyard. I just wanted to, from the opposite side of the aisle, reiterate the gentlelady's opinion, that a lot of us are having a very, very difficult time with the duality of the administration, the Defense Department and Department of Commerce thought that you can depend on national security from another source outside of this country.

If one of those main sources, for instance, is Taiwan, with whom our diplomatic relations have been pathetic, and the only reason they still smile at you over there is because they are making suckers out of us all, what makes us think that Taiwan is going to stay with us? What makes us think that Taiwan isn't going to belong to or support somebody else? What makes us think that diplomatically Taiwan isn't going to say "we are staying out of this one." Let's hope none of this ever happens, but it is ludicrous to ask this Congress to authorize billions and billions for defense when we must import so much of it. The defense budget is mind boggling. I can't even write out the number unless I do it backwards. You have to start with two zeroes, period, zero, zero, zero, zero, zero. I put it in a newsletter one day and everybody in my district thought I had lost my mind.

The President says "McKinney, you are being a lousy Republican because you are not for my defense effort." Defense effort, gentlemen, is everything.

The other concern I will bring up, and I don't know if any of you want to comment on this, but I stood in the front parking lot of Bullard Machines in Fairfield, CT, as the last building was hit by a ball and chain, and looked at the cornerstone, 110 years, 110 years. We in Connecticut have lost so much machine tool business we cannot even see straight.

Fasteners are also a big item in Connecticut, or used to be. Now they are a nonexistent item. In fact, the Secretary of the Department of Commerce had something to do with that business too, when he ran an old company.

I think that the other non sequitur coming out of Commerce unfortunately, and coming out of the administration, is free trade will follow GATT and everything else. Mr. Chairman, what has happened to the machine tool business, shipyard business, the fastener business, and every other business. Watch a new FA-18 taxi out of a hangar. The Japanese hold it together, and yet these very same countries that are going to be our "savior" at a time of national security crisis cheat, and I mean that word advisedly, on GATT, cheat on their taxes, cheat on their export policies, cheat by targeting their industries to a production scale, and we are going to depend on these people?

I think we have either got to decide to be a world leader, which to me is a world leader in fasteners, a world leader in shipyards, a world leader in steel production and pay the price, or let's be officially what foreign nations are making us out to be with their trade policies: Uncle Sap.

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I have tried and tried and tried, in fact I even asked my best friend, ex-best friend, my neighbor, Mr. Bruce Smart down at the Department of Commerce. I said look Bruce, darn it all, they are cheating us. How can we be a world power without these industries? I don't understand. I really don't understand. British social policy is steel production. It is easier to keep them working making steel which costs more than the market will bear, when the British national policy is let's finance an L–1011 for 4.5 percent.

I shouldn't have gotten started. I could go on for 25 hours.

Chairman LAFALCE. Go ahead.

Mr. MCKINNEY. But the fact of the matter is I am very concerned. I have looked at your reports. The fact of the matter is, the United States gets suckered by every industrial country in this world, and most suckered by the Far East. The only thing that gives me any hope at all is that the China market is about to open up wide, and maybe they will fight over China instead of fighting over the United States.r

I don't understand how we, representing two-thirds of the domestic market of the world, two-thirds of the nondefense market of the world, can sit back and take it. When I ran my small business, the customer was always right was rule one, and rule two is if you don't believe rule one, read rule two again, which says the customer is always right.

We are the world's customer. We let them get away with murder, and I don't know how you can have national security under those conditions. I understand that it is not practical to slag steel. I was born in Pittsburgh, PA. I remember standing up on a hill on East Liberty looking at a slag pile.

Chairman LAFALCE. Do you want the panel to respond to that question?

Mr. MCKINNEY. Yes, I would like a response as to how we can stay nationally secure and still be an industrially fit nation.

Mr. DONNELLY. I don't think there is any quarrel with the thesis that we need to have a strong manufacturing base in this country. I think where the difficulties are is determining what the solutions are to that. On one side there are those who say "let's put in restrictions, trade measures," other things like that. On the other side, there are those who say we have just got to beat the competition at their own game. We should be able to modernize our own industry to keep pace with worldwide industries.

You know, it is chagrinning to me in the manufacturing technology program that we operate that much of the data that the U.S. Government comes up with on new manufacturing techniques, such as how to build things quicker, cheaper, faster and so forth, that the data developed goes overseas, and that U.S. industry does not invest, or are unable to invest.

In my view anyway, the answer to it is modernization. We just have to keep pressing on with that.

Mr. MCKINNEY. Let's talk about modernization. I will be very brief. Take laser machine cutting tools for one. I watched what the Japanese did. They took our technology, closed their market, came up to production of scale and then whipped us right out of the business. Gentlemen, that is no basis for national security.

Chairman LAFALCE.

Mr. VENTO. Thank you, Mr. Chairman.

I regret that I was not here earlier. Obviously some of the panelists have been before other meetings talking about some of the aspects of the DPA with the subcommittee, and which I was privileged to attend and questioned them at that time.

General Becton, it is a pleasure to meet you. I don't know that we have met before. I specifically wrote the provision dealing with the offset reporting requirements in the law a couple of years ago.

Have you read that report, General Becton?

General BECTON. I have read the report, yes, sir.

Mr. VENTO. And you concur in the decision of the administration not to pursue continued review of offsets? Do you concur in that?

General BECTON. It is our recommendation that that section be repealed.

Mr. VENTO. General Becton, in other words with regards to the sale of a variety of aircraft and other technical materials, it was indicated that 60 percent of those are offset, that you feel that that has no impact or an insignificant impact on the industrial base in the United States.

General BECTON. I was referring to the requirement for reporting, and not so much a comment on that 60 percent offset and its impact on the industrial base. I will defer that to some other member who has more knowledge of the specifics.

Mr VENTO. In other words, you don't see that as being important.

General Becton, has FEMA been involved with General Abrahamson in the SDI contracts that address themselves to the R&D in terms of how that impacts on our defense industrial base or not?

General BECTON. I just checked with my expert. Apparently we have not been involved with SDI contracts.

Mr. VENTO. Do you think that these contracts that are signed for the research and development, which in fact represent hundreds of millions of dollars of commitments to the British or to the Germans or to the Japanese, and I guess to other countries, Israel now is also signing contracts, do you see those as having any impact in terms of the development of our human resource which is important to maintaining our technological edge or not?

General BECTON. I certainly think from a personal standpoint it does have an impact.

Mr. VENTO. Don't you think that you ought to be concerned about that aspect? Isn't that part of the DPA mandate?

General BECTON. Our mandate as I understand it from a FEMA standpoint is coordinating mobilization services and activities. I believe, if I am not mistaken, that the basic responsibility for assessing offset impacts is with the Department of Commerce.

Mr. VENTO. Mr. Freedenberg, do you want to suggest that that is your responsibility, and have you been involved with the contracts or the memorandum of understanding or agreement that has been signed by General Abrahamson and the Department of Defense concerning the research and development contracts to be awarded to these nations?

Mr. FREEDENBERG. General, those have been negotiated by the Department of Defense with the OMB coordination. We do have

concerns about things such as offsets that might impact adversely on industries, industries that are troubled, such as the machine tool industry, for example. You have offsets. One of the things that was pointed out to me recently was that 50 percent of the defense offsets that Switzerland has have to do with selling us machine tools. That gives me some concern, particularly when I have to go back to the Swiss and get them to restrain their machine tool sales.

Those sorts of things are of concern to me, yes.

Mr. VENTO. General Becton, how do you plan on monitoring this other than through surveys. Do you keep a listing of all of the memoranda of understanding, of all the offset agreements that are entered into between the public and private sector contracts? Many of these of course are accomplished by the Department of Defense negotiations.

General BECTON. FEMA does not keep a listing of the offset agreements.

Mr. VENTO. I am suggesting that you feel that a survey of this on an annual basis, you are recommending to alleviate that, but what do you have in place of that to monitor these particular concerns? I am willing to concede that maybe the survey that I have isn't the world's best solution to this, but I am interested in what your response is to put in its place.

General BECTON. The Defense Production Act in our judgment may not be the appropriate vehicle for this kind of report. We believe there may be other economic and trade legislation may be a better vehicle to develop this type of report in the future. Certainly some type of report may be necessary.

Mr. VENTO. Some sort of monitoring is required. I agree. I am not trying to put words in your mouth, but I obviously appreciate that concern.

There are a lot of problems. You are talking about machine tools, about Switzerland. You don't know what the scope can possibly be. The idea is to get out in front of this issue.

The other concern that I want to express—the second bell has rung so we are going to have to leave momentarily—is that so often we found that prior to this, that DOD was doing its own evaluation of offsets, and Commerce was doing its own evaluation, and Treasury had another initiative. Wouldn't it be better if there was some coordination, even though I don't necessarily approve of the job that OMB did in terms of its activities here.

Don't you think it is necessary to try to consolidate this and bring this together at some focal point, rather than having all of the agencies run out in different directions, General Becton.

General BECTON. I have been advised that OMB is doing that coordination.

Mr. VENTO. They are mandated by law to do it. That is one of the provisions that you seek to repeal, is what actually puts them in the driver's seat with regard to this, because there was this kibitzing between the various agencies. That was prior, I guess, to your assuming the directorship of FEMA, General Becton.

General BECTON. That is correct.

Mr. VENTO. I am just saying that you are seeking to repeal that now. That was part of the compromise that we devised. I just think it is important that we continue discussion on this. I am open. I

just think that there are some serious questions here that have to be resolved prior to final action on this issue. I agree we should have it. I think that the DPA cannot be permitted, though, to become a facade without substance, to say we are doing something in terms of protecting our manufacturing base, and then when you look behind it there is nothing remaining.

We have a lot of problems, and I would think that it is time to deal a strategy on the part of FEMA and the other agencies and departments involved in talking about really doing this rather than just getting sort of the top of the list in terms of production activity, which is important, but I think we are lost in the forest here, and we are not seeing the overall problem that I think that your agencies, you as Director and others, ought to be leaders in terms of pointing us in that direction.

That is the frustration I am hearing from my colleagues on John LaFalce's subcommittee this morning.

Thank you, Mr. Chairman.

Chairman LAFALCE. The subcommittee will be in recess for 15 minutes. We will reconvene at approximately 11:15.

[Recess.]

Chairman LAFALCE. The subcommittee will reconvene.

I would now call upon Congressman Ridge for any questions he might have.

Mr. RIDGE. Thank you, Mr. Chairman.

I do have a few questions. Before I ask them, I do want to commend you as well for your opening remarks, and express my support for those remarks, particularly the need for continuing reporting and retention of the offsets. I think it is pretty clear at least from this hearing and some of the other hearings that you have conducted on this matter, that there is bipartisan support for that effort, and you are to be commended for it.

Second, I would like to say that I do not want to get into any discussion about sealane attrition. That kind of terminology brought to mind some other terminology with which I was more familiar, strategic retrograde and all those good things. When you get to war planning scenarios, and you have hypothetical war situations, and you have one department saying we can sustain the transport of fasteners and machine tools across the Atlantic and Pacific, and you have got another department that says we are not real sure, I guess there is a need for some kind of theoretical planning, but it is somewhat incredulous in this day and age to honestly believe that if there was an all out effort that involved a major confrontation anywhere in the world, that we could rely on our allies in either the European theater or the Pacific theater to provide the materials, the fasteners, the machine tools and the like.

I know some of you may have a different view of that, but I just wanted to tell you that that is mine. This lacks credibility. I am not worried so much about our ability to protect our ships from the Exsposet missile, as we develop technology in the future, the idea of transporting machine tools in order to meet our need does have a lack of credibility and does not offer too much hope for me.

With that, I would like to just read into the report part of General Becton's testimony because I want to use it to focus my questions.

It says,

> The authority to establish and to maintain machine tool trigger orders program is title III of the act. Without this authority the program would have to be terminated and existing stand-by machine tool purchase agreements would have to be cancelled. This program now includes 97 standby contracts with machine tool builders covering over 8,500 items with contract values totalling $1.2 billion. The program is a government/industry cooperative effort to cut mobilization lead-times by speeding delivery of machine tools essential to defense production. If this program is canceled and an emergency were to occur, it could delay by 6 to 12 months the reinstitution of this government-industry preparedness program.

I would like to ask some questions specifically about the machine tool industry as one of the Members of Congress who has followed one of the very deliberate, labored, and I think somewhat tortured response of the administration over a 3-year period to the industry's 232 petition. I have heard from very high ranking DOD officials that the machine tool industry is considered the main pole in the defense tent. If it is not the main pole in the defense tent, certainly the machine tool industry is one of the two or three poles in the tent.

With that view, at least with that presumption, unless somebody disagrees that the machine tool industry is not essential to what we are talking about today, let me just ask you this. We are in agreement, aren't we, that it is important enough to preserve and protect? It is certainly appropriate for title III of this act.

Is it a main pole in the defense tent?

Mr. DONNELLY. It is, one of the key sectors.

General BECTON. Yes.

Mr. RIDGE. With that in mind and with that basic agreement, let us see how much further we agree.

Could you tell me how many of the companies that have standby contracts with the Federal Government, and in this we are talking about 97, under the machine tool trigger order program, are still in the business? I will not bore you with the statistics. You know them, but a lot of these machine tool companies that were in business 2 or 3 years ago are no longer with us.

Mr. FREEDENBERG. We are conducting an annual review of that, and we just completed it. Our current estimates are these. In fact, we updated it. Instead of 97 there are 99 contracts. Ninety-two appear to be OK. We are checking out dropped product line, change in the mix of products that are offered. Five contracts are questionable status, due to changes in ownership or uncertain health of the company.

Two contracts are no longer valid, because the companies are out of business, and, of course, we all know about the Houdaille case. Houdaille dropped a machine tool line and there was one other company, Boston Digital, that we had contracts with that is no longer in the business.

We anticipate some additional losses. We are trying to update it so that we can keep that contingency plan current and valid, but that gives you a sense of what this machine tool trigger orders program has.

Mr. RIDGE. How do you define "OK"?

Mr. FREEDENBERG. The company is still doing the same thing we contracted with them for, and that they seem to have sufficient financial health to stay in business for the foreseeable future.

Mr. RIDGE. Is that list available?

Mr. FREEDENBERG. We have the list. We don't want to talk about it publicly——

Mr. RIDGE. I understand.

Mr. FREEDENBERG. Because it is business confidential, but yes, it is available.

Mr. RIDGE. And it is your testimony adjusting it to 99, that 82 of those are basically OK?

Mr. FREEDENBERG. Yes.

Mr. RIDGE. According to a recent survey?

Mr. FREEDENBERG. We have just completed the review.

Mr. RIDGE. Some of the last statistics that I saw indicated that the foreign machine tool industry has captured about 43 percent of the market in 1985, and the flash figures for the early part of 1986 may indicate it is up to about 50 percent of the market, and we get into questions of sealane attrition and all that gobbledygook.

If you get to the 50 percent figure, at what point will there be some evidence of public concern of reliance on foreign manufacturers in replacement of domestic capabilities to provide machine tools?

Mr. FREEDENBERG. Obviously one of the reasons for the President's decision was the numbers you are talking about. In some areas of sophisticated machine tools, the foreign penetration is as high as 70 or 75 percent, so we are talking about a very serious problem, and obviously that has implications for mobilization. That is why I am now beginning negotiations on that issue with our allies and with Switzerland.

Mr. RIDGE. I watched, and I know you did not have jurisdiction, but I have watched the attempt at negotiating VRA's on steel. I have some specialty steel companies in my district.

Mr. FREEDENBERG. Right.

Mr. RIDGE. And I understand where there is a substantive difference, and you may be able to present or detect violations with machine tools more easily than you can with steel, but it is my hope that the VRA's are vigorously enforced, and enforced much better than those on steel.

I guess there have been several defense officials and high ranking officials who have been quoted as saying that they are pleased at seeing our European countries and our allies developing machine tool industries, and obviously the United States is buying them. Is there any concern that our domestic industry is being damaged by our encouraged and supported development of the European machine tool industry?

Mr. FREEDENBERG. I don't know that we encourage it. We are happy to see that it is healthy, and that our allies are staying up with the state of the art. We don't do anything in terms of subsidy.

Mr. RIDGE. Do you buy from them?

Mr. FREEDENBERG. We buy from them, yes, and that is the question.

Mr. RIDGE. Is not that encouragement? That is encouragement to produce.

Mr. FREEDENBERG. I guess that is simply a market sort of decision. I was just in Europe and looked at the machine tool industry, and it was very impressive. It was a high quality and high technol-

ogy, and it is certainly a formidable competitor, let alone Japan, so there is reason for concern there, when we are talking about the future of our own industry, because we are up against the state of the art.

Mr. RIDGE. But internally when you discuss the domestic capability that we have and the dramatic increased reliance upon foreign capability, and the import penetration of the foreign machine tool industry, is there a level of penetration that rings the alarm, that bells go off, that lights flash and you say this is just too much?

Mr. FREEDENBERG. Yes. That was what the 232 study, that was the alarm bell of the 232 study.

Mr. RIDGE. The 232 study involves a couple of countries but not all of them.

Mr. FREEDENBERG. No.

Mr. RIDGE. You are still going to get penetration from other producers.

Mr. FREEDENBERG. Our expectation is that no other country will fill the gap, that is if we have, for example, restraint on the part of Japan, that we won't see that gap filled by Korea. We want that restraint because we want to see the U.S. industry fill that gap to rebuild its own capacity.

Yes, there was a concern. We are only asking for restraint from the countries which have the highest level of penetration, but we expect other countries not to take advantage of this restraint on the part of Japan or Germany or Switzerland.

Mr. RIDGE. How do you expect them not to? Why do you expect them not to?

Mr. FREEDENBERG. We monitor it, and if there can be restraint against one country, there can be restraint against others.

Mr. RIDGE. We cannot afford to wait 3 more years, though.

Mr. FREEDENBERG. No, we cannot. I think the conclusion is there. We have the capacity to go out and negotiate these restraint agreements. We have done so in steel, for example. You aren't completely happy with it, but on the other hand, it has leveled off in the last few years.

We have a 22-percent level, and we have been coming close to that, and maybe you can argue about what level it should be, 18 percent or whatever, but we can enforce that, and we have, particularly in another part, not the OIRA part of my operation, but the Import Administration does have an agreements compliance, and there are some pretty battle-hardened veterans there who have seen all the different ways you can cheat on VRA's and are aware of it.

We are making our lists up. We are getting increased monitoring out of the Customs Service, and we expect that we can do a fairly good job of seeing what is coming into the country, in what form, and whether there are surges in different areas.

Mr. RIDGE. Obviously we can profit by the experience with the steel industry, as difficult as it may be, now that you are battle-hardened. It is true. I understand. Listen, these countries are very innovative, very creative.

Mr. FREEDENBERG. Right.

Mr. RIDGE. We have been getting steel in here in all different kinds of ways, and the fact that you are now aware how they can

circumvent the VRA's and are mindful of that should enforce our capabilities.

Mr. Donnelly, would you care to respond to that question?

Mr. DONNELLY. I was going to add another piece of it that you should be aware of, I guess, that the Defense Department is gradually moving away from acquiring industrial plant equipment, such as manufacturing equipment. We are trying to get out of acquiring equipment; that is, we don't believe we need to own manufacturing equipment that is provided to contractors, so we are expecting the private economy to make the investments rather than DOD, and we are moving away from owning plants.

We have gone from our 110 or so plants down to 60 or so in the past few years. We are trying to get out of the facilities business. Machine tools are clearly vital to national security. It is an important sector. We are working with Commerce on this issue as a result of the 232 decision by the President. There are two pieces of it.

One is the VRA's that we just heard about. The second piece is to look at ways where we can help the industry modernize.

Our milestone plan calls for us to get back to the White House by Labor Day with our overall plan for doing that.

Mr. RIDGE. I will not ask you to comment on the specifics of your involvement in the modernization effort, but I am glad to hear that you are involved in the process, and will be contributing to the development of the policy.

You are comfortable with the 82 manufacturers. Are you satisfied with the number, that they all meet your present needs and anticipated needs, regardless of import penetration?

Mr. DONNELLY. I think I am basically satisfied with the number. Without getting too scenerio specific, however, it is important that we all remember that programs like the Machine Tool Trigger Orders Program, programs like the National Defense Stockpile of raw materials, are very important preparedness measures. The difficulty that we see at Defense is that those types of measures, as important as they are, tend to kick in and make a difference only well into the emergency, and what is concerning us up front is, how do we get through from an industrial point of view, the first several weeks and months of that emergency?

How do we make sure that we have enough inventory rolling through plants that can be drawn upon to meet this new emergency production that may have to take place?

For example just waiting for products that might come in 12 months later, when you are going to run out of things we need after the first several weeks, makes our work pretty difficult. We are trying to spend more time in addition to the Machine Tool Trigger Program and programs like that. We are looking at ways to make the industrial base more responsive for those first several weeks.

For example, instead of stockpiling, let's take a World War II material, such as a basic ore. Why shouldn't we be more selective and stockpile it in a very upgraded state of that ore, closer to its end use, so that machine tools can help us?

Right now, you know if we don't have that kind of readiness thinking in our minds, the machine tool thing is going to kick in

too late to help us. We have to have ways to punch up production very rapidly. Instead of classic World War II ore, we ought to be thinking about forgings or castings or piece parts, ammunition penetrators, but not the raw material. These are important programs. They are good. We are basically satisfied with the Machine Tool Trigger Order Program because it has just been modernized in the past year.

It is the readiness part, the first several weeks and months of a conflict that is causing some concern.

Mr. RIDGE. So I might infer from your testimony that the surge capability, just being able to get things out the door very, very quickly.

Mr. DONNELLY. Yes, sir.

Mr. RIDGE. When you examine the state of the domestic industry and the ability to import it, the machine tool industry itself is not a primary concern in that phase of readiness or preparedness. You feel there is adequate capacity now.

Mr. DONNELLY. I think the capacity in the aggregate is pretty good. I would like to see more flexible manufacturing systems, for example. I would like to see more ability to be able to rapidly change tooling from one process to another in a very short period of time, rather than the weeks and weeks and months it might take in an emergency.

I know we need to make improvements there. That is a machine tool issue. That is going to be part of our——

Mr. RIDGE. I was going to ask you, are you going to make recommendations?

Mr. DONNELLY. We are certainly looking at that. All these paragraphs cost money, but that is the direction in which we are headed. On the production surge program that you just touched on, we have some very good innovative ideas in the production surge area. Let me just give a quick example and then I will stop talking.

Mr. RIDGE. Certainly.

Mr. DONNELLY. Let's take the TOW 2 of which you are probably aware is a missile, an anti-tank missile. Without investing in a surge capability, the best we could do to double production in an emergency would be on the order of 10 or 14 months before we could expect to produce it in those increased quantities, which would clearly be required in a war.

By putting in a surge capability, that is holding a rolling inventory of long lead-time materials and parts and so forth that are produced on machine tools, by having that rolling inventory available at the plant, we have found that we can double production or better within the first 3 to 6 months.

This does not require spending any more money for the missile program in this case. All it means is we are going to buy up front some of the long leadtime items, process them through industry as we do, and have them ready for us. If we don't have the surge, if there is no emergency, God help us, then we would use up that rolling inventory of the long leadtime items at the tail end of production, when the production of the missile is done. So it is merely an up-front change in our acquisition policies that would permit some of these things to work.

These are the kinds of very innovative things that we are trying to come up with as part of the machine tool study and others.

General BECTON. I would like to ask Dr. Blong to make a comment on surge production preparedness from the FEMA standpoint.

Dr. BLONG. Mr. Donnelly mentioned an important point in terms of having programs that are really focused on surge preparedness and the initial expansion of production rather than all-out full mobilization. The program we are talking about here, the Machine Tool Trigger Order Program, is one example where we are trying very carefully with DOD and Commerce, to identify those machine tool requirements that would support expanding production of the most critical battlefield items, that is increase production by 50 percent, 100 percent or whatever may be necessary.

Those are the kinds of industrial responsiveness programs and activities that we need for surging and the initial expansion of production for the most critical battlefield items.

Mr. RIDGE. But in recognizing that need, would it be your intent to use the domestic industry to fill that need, or will you look to our allies in the Pacific and the European theaters?

Dr. BLONG. All the tools in this program are domestic tools, it contains no foreign tools at all.

Mr. DONNELLY. And on the production in the Surge Program, Mr. Ridge, on the acquisition of the long lead time items, if we were unacceptably foreign dependent for some of those items, there is no reason why they couldn't be included in that long lead as well.

If we were unacceptably foreign dependent, there is no reason why we couldn't put that rolling inventory in.

Mr. RIDGE. Ultimately would not it be better if America controlled the tools?

Mr. DONNELLY. Yes.

Mr. RIDGE. And the machine tool penetration?

Mr. DONNELLY. Yes.

Mr. RIDGE. Ultimately would not it be better to help American industry get caught up, modernize, so you have that domestic capability?

Mr. DONNELLY. No question about that.

Mr. RIDGE. I am very interested in your recommendations with regard to that, and in your report. One final question if I might, Mr. Chairman.

Mr. Donnelly in your testimony, you state,

> Appropriations available under DPA authorizations will be used for long-term purchase guarantee contracts for a few selected industrial materials or manufacturing processes. These contracts will be used to establish or maintain a domestic industrial capacity for a few selected national defense products when normal market incentives are insufficient. We expect to be awarding the first defense contracts using title III appropriations shortly.

One, is there any consideration of the machine tool industry? Two, if not with that industry, what other areas of strategic importance are you examining now and considering for use under this program?

Mr. DONNELLY. The first two projects will be associated with high purity silicon, which is used in electronics production. We have no U.S. source. We will put one in.

The second one in fiscal year 1985 involves electronic countermeasures used in aircraft. Those two programs are viewed as pilot programs to make sure we have our procedures arranged satisfactorily.

There are $10 million in 1985. In fiscal year 1986, Congress gave us $31 million, and there will be three programs there.

In fiscal year 1987 the estimate is about $30 million. We would hope that in 1988 we could substantially raise that amount.

The types of industrial sectors are as I said earlier about the concern about the upgraded forms, the processing, so we are naturally looking at things that are in the high tech area, things that can make a difference in the first several weeks and months. It would be those kinds of projects.

Mr. VENTO. Mr. Chairman, on that point, I anticipate we have a vote and I have a question that relates to that. Why is it that you haven't awarded—had you the appropriation in 1985 and you have not done the award yet, and you have not begun the awarding of contracts in 1986.

What is the reason for this, Mr. Donnelly?

Mr. DONNELLY. Let me say first that I am sure we will meet the time period required to make the awards, so there won't be an issue there. What took the time was as part of giving us the administrative authority to enter into these purchase guarantee contracts. In the legislation is a significant amount of criteria to make sure that we would meet that before even coming to the Congress, so the administrative procedures had to be developed.

We had to hire a couple of people to do it, and had to get approval from OMB and the Congress, and we have been over here briefing a number of committees on it, both Banking Committees as well as the——

Chairman LAFALCE. What problem did you have with OMB in that process, Mr. Donnelly?

Mr. DONNELLY. I don't know whether I had any problems. It took a little longer than I would have liked to get it done.

Chairman LAFALCE. Didn't OMB attempt to thwart the efforts of the President's attempt in the budget?

Mr. DONNELLY. I wouldn't say they thwarted them.

Mr. VENTO. If we had an amendment to eliminate OMB from the process, it would probably do a service to the Defense Production Act.

Mr. RIDGE. General Becton might be on our side on that, too. If we eliminated OMB things would go a lot more smoothly.

Mr. VENTO. A bipartisan amendment.

Chairman LAFALCE. Mr. Donnelly, how can we justify organization and appropriation for $30 million for fiscal year 1987 when we have almost that available from the appropriations for 1985 and 1986?

Mr. DONNELLY. I am not sure I thoroughly understand that question. Why are we asking for more money in 1987 if we haven't spent the money in 1985 and 1986?

Chairman LAFALCE. Precisely.

Mr. DONNELLY. That was also my response to Congressman Vento. It took us a while to get those procedures to the point where we were seeing the four committees on the Hill, and the OMB that we were doing the right things with those projects, that they were the most cost-effective, they were the right materials, and we were not trying to cure some national economic problem that we were purely trying to cure the defense readiness problem.

It is moving slower than it ought to, sir.

Chairman LAFALCE. Why is that? Is it because of the legislative criteria? Is it because of the legislative committee system? Is it because of OMB? Is it because of the startup, lack of personnel, a combination of all of those things?

Mr. DONNELLY. I think it is a combination of all of it, but I am looking at it on the positive side. I think we have all the startup difficulties behind us. Everyone now understands what the program is and what it isn't, and what the techniques are, and what purchase guarantee really means. They understand how to do it in a competitive environment. I think most of that is behind us.

Chairman LAFALCE. You got $30 million for 1987. You have almost $100 million for the next fiscal year, 1988. Can you justify that much?

Mr. DONNELLY. Yes, sir.

Mr. VENTO. Mr. Chairman, I have to leave. I just wanted to mention I know that you may, too, but I just feel like this whole program has been sort of like a yo-yo, up and down. The administration, when there is some problem on a foreign policy issue with a strategic mineral or something, then it is very, very important, but when it is something that they don't express that interest in, which we think is equally important, it seems as though that is given very little attention in terms of manufacturing base and offsets and so forth.

Obviously I think that most of us are probably convinced that there are certain aspects of this program that are essential, but we are befuddled by the type of fits and starts attitude that exists with some aspects of this program, whether it is OMB or whoever.

I am serious about trying to remove them from the process indeed, because we found other problems as you know. We gave them the coordination job and they seem to have gotten more in the way than helped.

Chairman LAFALCE. I just have a few more.

Mr. Becton, Mr. Donnelly or Mr. Freedenberg, referring to the demise of the Synfuels Corporation, should consideration be given to removing the prohibition against using DPA for synthetic fuels?

Mr. FREEDENBERG. I haven't really thought about that. I think we have had a bad experience with the synfuels, and I would want to be careful not to repeat that bad experience.

Chairman LAFALCE. I know, but right now isn't there a legislative prohibition? Don't you think you should at least have the authority?

Mr. FREEDENBERG. I would like to get back to you on that, since it is not immediately in my area of jurisdiction.

Dr. BLONG. We have no comment on that program. That authority, the Synthetic Fuels Corporation is in energy and defense.

Chairman LAFALCE. I cannot hear you, Dr. Blong.

Dr. BLONG. The authority for that program is with the Synthetic Fuels Corporation, with the Departments of Energy and Defense supporting it. They would be the appropriate agencies to comment on this program.

Chairman LAFALCE. General Becton, how long have you been head of FEMA?

General BECTON. Since the 6th of November, 1985, 8 months and about 3 weeks, but a very interesting period.

Chairman LAFALCE. Your feet are on the ground by now. When you came in you said to yourself all of a sudden I am charged with a lot of responsibilities, and one of them is to insure that we have an adequate defense industrial base to meet our national security requirements, right?

General BECTON. That is correct.

Chairman LAFALCE. You are the No. 1 honcho. Insofar as these programs are concerned, DOD has an important role, Commerce, et cetera, but you have the responsibility for it, is that correct?

General BECTON. We have a responsibility at FEMA for exercising the present authorities as they pertain to coordinating mobilization activities.

Chairman LAFALCE. Did you try to make some assessment of what our defense industrial preparedness was, once you came in? Did you have people come in and say give me a briefing? What is our defense industrial preparedness? What are our weaknesses? What are our strengths? What plan of action should we have for the next year, for the next 2 years, the next 5 years?

General BECTON. Quite frankly, sir, the first thing I did at FEMA was to find out I didn't have a budget, and I dealt with that first. I then dealt with trying to stay within the budget the Congress gave FEMA. I did, however, get to the point of looking at what was our industrial base. As a matter of fact, we just had a meeting last week dealing with the North American Defense Industrial Base at Emmitsburg, MD, in which these gentlemen also participated along with some Canadian officials.

We are concerned, and we have established some industrial preparedness priorities and initiatives to assess and improve our industrial responsiveness capabilities.

Chairman LAFALCE. I guess everybody is concerned. It is the priority of concern attached to that. I am just wondering in your office, you said you met last week with the Canadians. Have you had any type of assessment done since you have been Director of FEMA of our defense industrial base, what our strengths and weaknesses are, and where we ought to be headed? Have you called upon DOD for reports, the Department of Commerce for such reports?

General BECTON. There has been some interagency airing of the issues and problems. Yes, to some extent. I have not personally had in front of me a spread sheet that lists these industrial preparedness initiatives. I am convinced, however, it is available.

Chairman LAFALCE. It seems to me you ought to be not only convinced that they are available, but you should be knowledgeable about those spread sheets, and the information contained therein, so you can be making some judgments and offering some leadership, giving some guidance, don't you agree?

General BECTON. I have the responsibility to provide that leadership to the departments and agencies. I have been providing that leadership to the people who work directly for me who have the responsibility for industrial preparedness. I also have other major areas that are very critical to our security and to protecting the population of the United States.

Chairman LAFALCE. I understand. The defense industrial base is not something that should be relegated to low priority.

General BECTON. No. It is something that should be given more attention and visibility.

Mr. FREEDENBERG. I might comment on that, that FEMA assigned to us a number of studies on the defense industrial base, and we recently completed a study on ammunition, which we then presented to NATO, and we then presented it to the Defense Department, so we are going sector by sector. We have in our Office of Industrial Resource Administration, we do a number of the studies for FEMA. This is not a subject that is being ignored.

Chairman LAFALCE. I am afraid that this subcommittee is going to have to adjourn right now because of other commitments, but I may want to reconvene, at least, informally to go over other questions that I have.

[Whereupon, at 12 noon, the subcommittee was adjourned.]

APPENDIX

STATEMENT OF THE HONORABLE JULIUS W. RECTON, JR
DIRECTOR
FEDERAL EMERGENCY MANAGEMENT AGENCY
BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
JULY 24, 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. THANK YOU FOR THIS OPPORTUNITY TO DISCUSS WITH YOU THE IMPORTANCE OF THE EXTENSION OF THE DEFENSE PRODUCTION ACT OF 1950 TO THE EMERGENCY PREPAREDNESS PROGRAMS OF THE NATION.

BASED ON DELEGATION FROM THE PRESIDENT, THE FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) COORDINATES IMPLEMENTATION OF THE NATION'S MOBILIZATION PREPAREDNESS POLICIES AND PROGRAMS BY THE RELEVANT CIVIL DEPARTMENTS AND AGENCIES. THE MAJORITY OF THE AUTHORITIES FOR THIS FUNCTION ORIGINATE IN THE NATIONAL SECURITY ACT OF 1947 AND THE DEFENSE PRODUCTION ACT OF 1950, AS AMENDED.

EXECUTIVE ORDER 10480, WHICH IMPLEMENTS THE DEFENSE PRODUCTION ACT, SPECIFICALLY CHARGES FEMA WITH THE RESPONSIBILITY FOR COORDINATING ALL MOBILIZATION ACTIVITIES OF THE EXECUTIVE BRANCH. OUR EFFORTS ARE DIRECTED TOWARD MAINTAINING A DEFENSE INDUSTRIAL BASE THAT IS RESPONSIVE TO NATIONAL SECURITY EMERGENCY REQUIREMENTS. THE DEFENSE PRODUCTION ACT IS A VITAL ELEMENT OF OUR CAPABILITY TO DO THIS.

DEFENSE PRODUCTION ACT AUTHORITIES

THE DEFENSE PRODUCTION ACT OF 1950 IS THE KEY AUTHORITY FOR EMERGENCY MOBILIZATION PREPAREDNESS. IT PROVIDES THE STATUTORY BASIS FOR THE READINESS OF THE NATION'S INDUSTRIAL RESOURCES. CONTINUATION OF THESE AUTHORITIES IS ESSENTIAL TO THE NATIONAL DEFENSE. CONGRESS HAS RECOGNIZED THE VITAL IMPORTANCE OF THESE AUTHORITIES IN REDUCING THE TIME FOR MOBILIZATION OF THE NATION'S INDUSTRY AND RESOURCES.

TITLE I IS THE SOLE AUTHORITY FOR THE DEFENSE PRIORITIES AND ALLOCATION SYSTEM WHICH IS FUNDAMENTAL TO MAINTAINING SCHEDULES FOR DEFENSE PRODUCTION. THIS OPERATIONAL SYSTEM ALSO PROVIDES THE BASIS FOR ORDERLY AND RAPID EXPANSION OF DEFENSE PRODUCTION IN A NATIONAL SECURITY EMERGENCY. TITLE III PROVIDES AUTHORITY FOR EXPANSION OF INDUSTRY TO EXPEDITE PRODUCTION AND DELIVERIES FOR DEFENSE PURPOSES..

TITLE VII AUTHORIZES THE PRESIDENT TO ESTABLISH AN EXECUTIVE RESERVE FOR EMPLOYMENT DURING PERIODS OF EMERGENCY. IT ALSO PERMITS THE PRESIDENT TO CONSULT WITH REPRESENTATIVES OF INDUSTRY, BUSINESS, FINANCE, AGRICULTURE, LABOR, AND OTHERS FOR THE MAKING OF VOLUNTARY AGREEMENTS TO ASSIST IN THE DEFENSE OF THE UNITED STATES. TITLE VII CONTAINS DEFINITIONS AND ADMINISTRATIVE PROVISIONS THAT ESTABLISH THE LIMITS OF AUTHORIZED PROGRAMS AND ASSURE COMPLIANCE. THESE AUTHORITIES LEAVE NO DOUBT ABOUT THE INTENT OF THE CONGRESS TO PROVIDE FOR OUR NATIONAL SECURITY.

5-YEAR EXTENSION OF THE ACT

A SIMPLE 5-YEAR EXTENSION OF THE DEFENSE PRODUCTION ACT WOULD PROVIDE CONTINUITY TO DEFENSE PREPAREDNESS PROGRAMS, STRENGTHEN PREPAREDNESS PLANNING, AND DEMONSTRATE A FIRM COMMITMENT TO MAINTAIN THE RESPONSIVENESS OF THE DEFENSE INDUSTRIAL BASE.

AUTHORITIES IN THE ACT ARE CURRENTLY USED FOR DEFENSE CONTRACTORS TO DEVELOP PRODUCTION SCHEDULES BASED ON ASSURANCE OF ORTAINING MATERIALS, COMPONENTS, AND OTHER NECESSITIES THROUGH EXTENSIONS OF PRIORITIES ON THEIR PRIME DEFENSE CONTRACTS. THIS RESULTS IN BENEFITS TO TAXPAYERS BY KEEPING PROGRAMS WITHIN THEIR BUDGETED COSTS.

IMPACTS OF EXPIRATION OF THE ACT

CONGRESS SHOULD NOT ALLOW THIS VITAL AUTHORITY TO EXPIRE. IF THE ACT EXPIRES, THE CONSEQUENCES COULD BE SEVERE ON THE NATION'S EMERGENCY PREPAREDNESS.

- CURRENT DEFENSE PROCUREMENTS REQUIRE PRIORITY RATINGS TO HELP ENSURE THE TIMELY DELIVERY OF THE GOODS AND EQUIPMENT AND EARLY COMPLETION OF PRODUCTION SCHEDULES. PRIORITIES SUPPORT IS ALSO EXTENDED FOR ALL MILITARY AND ATOMIC ENERGY PRODUCTION AND CONSTRUCTION.

- THE TERMINATION OF THE DEFENSE PRODUCTION ACT WILL ADD TO THE COST OF DEFENSE PROCUREMENT BECAUSE OF THE ADDITIONAL TIME INVOLVED IN OBTAINING CRITICAL AND SCARCE MATERIALS AND EQUIPMENT. WITHOUT PRIORITIES SUPPORT, DEFENSE CONTRACTORS COULD HAVE DIFFICULTY IN OBTAINING MATERIALS AND EQUIPMENT.

- THE DEPLOYMENT OF MILITARY FORCES IN A MAJOR EMERGENCY IS DEPENDENT ON TRANSPORTATION ASSETS MADE AVAILABLE FOR DEFENSE USE UNDER TITLE I AUTHORITIES. THESE ASSETS INCLUDE THE CIVIL RESERVE AIRCRAFT FLEET (CRAF), CONTINGENCY RESPONSE PROGRAM (CORE), THE NATIONAL DEFENSE RESERVE FLEET (NDRF), AND OTHER RAPID RESPONSE DEPLOYMENT PLANS.

- TITLE I OF THE DEFENSE PRODUCTION ACT IS THE ONLY PRESIDENTIAL AUTHORITY (SECTION 101) AVAILABLE TO PRIORITIZE DEFENSE AND ESSENTIAL CIVILIAN TRANSPORT MOVEMENTS IN THE CIVIL ECONOMY IN THE EVENT OF A SEVERE TRANSPORTATION DISRUPTION.

- IF THE ACT IS NOT EXTENDED, TITLE III PROJECTS TO BUILD DOMESTIC CAPACITY IN CRITICAL DEFENSE RELATED INDUSTRIES, WHICH CAN LESSEN FOREIGN DEPENDENCY FOR MATERIALS SUPPLY, COULD NOT BE UNDERTAKEN. ALSO, A KEY INCENTIVE TO PROMOTE LONG-TERM SURVIVAL OF NEEDED TECHNOLOGIES WOULD BE LOST. MR. DONNELLY WILL BE ADDRESSING THE SPECIFICS OF THIS PROGRAM.

- AUTHORITY TO ESTABLISH AND MAINTAIN OF THE MACHINE TOOL TRIGGER ORDER PROGRAM (MTTOP) IS TITLE III OF THE ACT. WITHOUT THIS AUTHORITY THE PROGRAM WOULD HAVE TO BE TERMINATED AND EXISTING STANDBY MACHINE TOOL PURCHASE AGREEMENTS WOULD HAVE TO BE CANCELLED. THIS PROGRAM NOW INCLUDES 97 STANDBY CONTRACTS WITH MACHINE TOOL BUILDERS COVERING OVER 8,500 ITEMS WITH CONTRACT VALUES TOTALING $1.2 BILLION. THE PROGRAM IS A GOVERNMENT/INDUSTRY COOPERATIVE EFFORT TO CUT MOBILIZATION LEAD-TIMES BY SPEEDING DELIVERY OF MACHINE TOOLS ESSENTIAL TO DEFENSE PRODUCTION. IF THIS PROGRAM IS CANCELLED AND AN EMERGENCY WERE TO OCCUR, IT COULD DELAY BY 6-12 MONTHS THE REINSTITUTION OF THIS GOVERNMENT-INDUSTRY PREPAREDNESS PROGRAM.

- THE 11 NDER UNITS SPONSORED BY THE MAJOR FEDERAL DEPARTMENTS AND AGENCIES WOULD HAVE TO BE DISBANDED AND THE RESERVE MEMBERSHIP TERMINATED WITH THE RESULTING DISPERSAL OF TALENT AND EXPERIENCE NECESSARY FOR ADEQUATE EMERGENCY PREPAREDNESS.

- IN ADDITION TO CURRENT BENEFITS, THE DEFENSE PRODUCTION ACT ALSO PROVIDES AN "INSURANCE" ELEMENT THAT MAKES POSSIBLE RESPONSE OF THE DEFENSE INDUSTRIAL BASE TO EMERGENCY REQUIREMENTS IN MINIMUM TIME. DURING WORLD WAR II, 18 MONTHS OF COSTLY DELAYS ELAPSED BEFORE A PRIORITIES SYSTEM BECAME EFFECTIVE. DURING THE KOREAN WAR, 12 MONTHS PASSED BEFORE A PRIORITIES SYSTEM BECAME EFFECTIVE. TODAY, WE ARE BETTER PREPARED. WE HAVE GOVERNMENT PERSONNEL AT POLICY AND OPERATING

LEVELS. CONTRACTING OFFICERS AND PRODUCTION OFFICERS EXERCISE THE AUTHORITIES ON PRESENT DEFENSE CONTRACTS. CONTRACTORS, SUBCONTRACTORS, AND SUPPLIERS UNDERSTAND THE AUTHORITIES AND RESPONSIBILITIES ASSOCIATED WITH DEFENSE (PRIORITY) ORDERS. THE COMPLETE SYSTEM IS OPERATIONAL AND GIVES CURRENT BENEFITS AS WELL AS PROVIDING FOR A NATIONAL SECURITY EMERGENCY.

IN SUMMARY, THE EFFECTIVENESS OF THE DEFENSE PRODUCTION ACT AUTHORITIES HAS BEEN PROVEN EVERY DAY FOR THE PAST 36 YEARS. THE ASSURANCE THAT THE AUTHORITIES WOULD BE AVAILABLE FOR THE NEXT FIVE YEARS ENHANCES EMERGENCY PREPAREDNESS OF THE UNITED STATES.

REPEAL SECTION 309

SECTION 309 OF THE ACT REQUIRES AN ANNUAL REPORT ON THE IMPACT OF OFFSETS ON DEFENSE PREPAREDNESS AND OTHER MATTERS. OUR RECOMMENDATION FOR REPEAL OF THIS SECTION IS BASED ON A FINDING IN THE RECENTLY COMPLETED SECTION 309 REPORT THAT THE RELATIVE MAGNITUDE OF OFFSETS DOES NOT WARRANT AN ANNUAL REPORT WHICH REQUIRES THE CONTINUED ABSORPTION OF INDUSTRY AND GOVERNMENT RESOURCES.

THE BASIS FOR THIS REQUESTED REPEAL AND THE ADMINISTRATION'S RATIONALE WERE FULLY PRESENTLY AND DISCUSSED AT THIS SUBCOMMITTE'S HEARING ON OFFSET AGREEMENTS HELD ON JUNE 18, 1986.

IMMEDIATE EXTENSION NEEDED

IF THE ACT EXPIRES, THESE BENEFITS COULD BE LOST. PRODUCTION SCHEDULES COULD BE EXTENDED, WITH INHERENT COST PENALTIES TO THE TAXPAYER. IN THE EVENT OF A NATIONAL SECURITY EMERGENCY, DEFENSE PRODUCTION COULD BE JEOPARDIZED WHILE THE GOVERNMENT ATTEMPTS TO REESTABLISH A SYSTEM OF PRIORITIES AND ALLOCATIONS. NEW LEGISLATION WOULD BE NEEDED TO AUTHORIZE GOVERNMENT PROGRAMS FOR EXPANSION OF INDUSTRY TO MEET DEFENSE REQUIREMENTS.

THE LOSS OF THE NATIONAL DEFENSE EXECUTIVE RESERVE WOULD REQUIRE RECRUITMENT OF HIGH-LEVEL MANAGEMENT AND TECHNICAL EXPERTISE AT A TIME WHEN INDUSTRY WOULD BE ENGAGED IN MAJOR EFFORTS TO RECRUIT SIMILAR SKILLS. FINALLY, THE MACHINE TOOL PROGRAM WOULD BE CURTAILED.

EXTENSION OF THE DEFENSE PRODUCTION ACT FOR 5-YEARS WILL BE A CLEAR CONGRESSIONAL DECLARATION THAT THE UNITED STATES IS SEEKING TO MAXIMIZE ITS DEFENSE PREPAREDNESS AND THAT IT CAN MOBILIZE ITS MILITARY AND ECONOMIC STRENGTH TO PROMOTE PEACE AMONG NATIONS.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY ON BEHALF OF THE ADMINISTRATION STRONGLY RECOMMENDS EXTENSION OF THE DEFENSE PRODUCTION ACT OF 1950 FOR A 5-YEAR PERIOD.

BIOGRAPHY

LIEUTENANT GENERAL JULIUS W. BECTON, JR.

UNITED STATES ARMY
(RETIRED)

Lieutenant General Julius W. Becton, Jr., was born and reared in Bryn Mawr, Pennsylvania. He enlisted in the Army Air Corps Enlisted Reserves in December 1943 and was called to active duty in July 1944. Much of General Becton's service has been with combat units. He received his commission from the Infantry Officers Candidate School at Fort Benning, Georgia, in August 1945. In 1972 he was promoted to Brigadier General. He commanded the legendary 1st Cavalry Division from February 1975 to November 1976. His last command was VII U.S. Corps in Germany from October 1978 to June 1981. He completed his active service on 31 August 1983 as the Deputy Commanding General (Training) in the U.S. Army Training and Doctrine Command (TRADOC) and the first Army Inspector of Training since Major General von Steuben in 1775.

His military schooling includes the Basic, Communications, and Advanced Courses of the Infantry School, the Command and General Staff College, the Armed Forces Staff College, the Institute for Defense Analyses, and the National War College. He earned a Bachelor of Science degree from Prairie View A&M College in mathematics and a Master of Arts degree from the University of Maryland in economics. He has received many honors to include the honorary degree of Doctor of Laws from Huston-Tillotson College in Texas. He is a distinguished member of the Infantry Officer Candidate Hall of Fame; a Knight in the Military and Hospitaler Order of St. John of Jerusalem, Knights of Malta; a member of the Board of Visitors to the Interdenominational Theological Center; and listed in WHO'S WHO IN AMERICA, as well as EBONY MAGAZINE's 100 Most Influential Blacks in America. He is a member of the USO World Board of Governors. His many military decorations include the Distinguished Service Medal, two Silver Stars, two Legions of Merit, the Distinguished Flying Cross, and The Knight Commanders Cross (Badge and Star) of the Order of Merit awarded by the Federal Republic of Germany.

In January 1984, he became the Director of the Office of U.S. Foreign Disaster Assistance, Agency for International Development, which is charged with coordinating the provision of all U.S. Government foreign disaster assistance.

He is at present the Director of the Federal Emergency Management Agency (FEMA) which is the central point of contact within the federal government for a wide range of emergency management activities in both peace and war.

Lieutenant General Becton is married to the former Louise Thornton, and they have four daughters, one son, and four grandchildren.

JUL 23 1986

Clair K. Blong is the senior planning officer for industrial resource preparedness in the National Readiness Division of the Federal Emergency Management Agency (FEMA). In his 14 years with FEMA and its predecessor agencies, Dr. Blong has participated in numerous mobilization preparedness programs, especially industrial, energy, materials and transportation. He has also participated in National Security Council studies of mobilization, continuity of government, and resources allocation capabilities for national defense emergencies.

Dr. Blong has extensive experience in U.S. and NATO civil-military resource crisis management activities. He holds a doctorate in political science from the University of Maryland and is a 1980 graduate of the Industrial College of the Armed Forces with a focus on industrial mobilization problems in NATO states.

HOLD UNTIL RELEASED
BY THE COMMITTEE

STATEMENT BY

MR. RICHARD E. DONNELLY
DIRECTOR, INDUSTRIAL RESOURCES
OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
(ACQUISITION AND LOGISTICS)

BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION

COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

24 JULY 1986

HOLD UNTIL RELEASED
BY THE COMMITTEE

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FOR OPEN PUBLICATION
JUL 23 1986
DIRECTORATE FOR FREEDOM OF INFORMATION
AND SECURITY REVIEW (OASD-PA)
DEPARTMENT OF DEFENSE

MR. CHAIRMAN AND MEMBERS OF THE COMMITEE, I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY IN CONNECTION WITH YOUR DELIBERATIONS CONCERNING EXTENSION OF THE DEFENSE PRODUCTION ACT OF 1950, AS AMENDED.

AS THE SOLE STATUTORY VEHICLE FOR ENSURING THAT THE NATION'S INDUSTRIAL BASE IS KEPT IN A STATE OF READINESS IN PEACETIME WITH PROGRAMS THAT CAN BE EXPANDED IN EVENT OF NATIONAL EMERGENCY, THE DEFENSE PRODUCTION ACT IS ESSENTIAL TO THE NATIONAL DEFENSE. IN THIS REGARD, THE DEPARTMENT OF DEFENSE RELIES PARTICULARLY ON THE DEFENSE PRODUCTION ACT TO MEET ITS PRODUCTION, DEPLOYMENT AND COST CONTAINMENT COMMITMENTS. THE DEFENSE DEPARTMENT REQUESTS A STRAIGHT FIVE-YEAR EXTENSION OF THE CURRENT ACT TO HELP MAKE SURE THAT THESE COMMITMENTS ARE MET.

AT THIS TIME WE ARE CONVINCED THAT THE INDUSTRIAL BASE WILL BE GENERALLY CAPABLE OF RESPONDING TO OUR PROGRAMMED LEVELS OF WEAPON SYSTEM ACQUISITION AND LOGISTICS SUPPORT AND WE RELY ON THE CONTINUED AVAILABILITY OF TITLE I OF THE ACT TO ASSURE TIMELY DELIVERIES OF AVAILABLE INDUSTRIAL RESOURCES. THE TITLE I PROVISIONS ENSURE PRIORITY TREATMENT OF DEFENSE PROGRAMS WHEN NECESSARY TO MEET SCHEDULED PRODUCTION. IN ADDITION, WE NEED THE TITLE III AUTHORITIES PRIMARILY TO ESTABLISH OR EXPAND DOMESTIC PRODUCTION CAPABILITIES UNDER THOSE EXTRAORDINARY CIRCUMSTANCES WHERE THE FREE MARKET CANNOT RESPOND IN TIME TO SUPPORT THE NATIONAL DEFENSE, WHERE WE ARE UNACCEPTABLY DEPENDENT UPON FOREIGN SOURCES AND WHERE THIS IS THE MOST COST EFFECTIVE METHOD TO MEET THE NEED. IN AN EMERGENCY, TITLE III WOULD BE REQUIRED TO HELP INSURE THAT DEFENSE PRIORITIES ARE MET.

THE DEPARTMENT OF DEFENSE RELIES PRIMARILY ON THE PRIVATE, COMMERCIAL MARKETPLACE FOR PRODUCTION OF WEAPON SYSTEMS. AS THE ECONOMY RECOVERS, COMPETITION FOR INDUSTRIAL RESOURCES MAY INCREASE. ALTHOUGH STRONGER DEFENSE DEMAND WILL ATTRACT NEW CONTRACTORS AND SUPPLIERS TO THE MARKETPLACE, THE CONGRESS AND EXECUTIVE BRANCH MUST ALSO ENSURE THAT BUSINESS DEALINGS WITH THE DEFENSE DEPARTMENT ARE AS PREDICTABLE AS POSSIBLE. THIS INCLUDES EXTENDING THE DEFENSE PRODUCTION ACT AUTHORITIES TO ENSURE CONTINUITY.

THE DOD IS CURRENTLY IN THE PROCESS OF IMPLEMENTING USE OF TITLE III FOR A FEW EXTRAORDINARY CASES. OUR IMPLEMENTATION IS A DECISIVE ACTION PURSUED TO ENSURE THE AVAILABILITY OF LONG-TERM DOMESTIC INDUSTRIAL CAPABILITIES, NECESSARY FOR NATIONAL DEFENSE, OF A FEW PRODUCTS KEY TO CERTAIN WEAPON SYSTEMS WHEN A DOMESTIC CAPABILITY IS NEEDED. DOD USE OF TITLE III IS NOT PROTECTIONISM: IT IS AN OPTIONAL INCENTIVE BY WHICH WE CAN MARSHAL PRIVATE SECTOR RESOURCES IN A FEW CASES TO PROVIDE NEEDED PRODUCTS.

APPROPRIATIONS AVAILABLE UNDER DPA AUTHORIZATIONS WILL BE USED FOR LONG-TERM PURCHASE GUARANTEE CONTRACTS FOR A FEW SELECTED INDUSTRIAL MATERIALS OR MANUFACTURING PROCESSES. THESE CONTRACTS WILL BE USED TO ESTABLISH OR MAINTAIN A DOMESTIC INDUSTRIAL CAPACITY FOR A FEW SELECTED NATIONAL DEFENSE PRODUCTS WHEN NORMAL MARKET INCENTIVES ARE INSUFFICIENT. WE EXPECT TO BE AWARDING THE FIRST DEFENSE CONTRACTS USING TITLE III APPROPRIATIONS SHORTLY.

OUR CURRENT TITLE III PURCHASE GUARANTEE ACTIVITIES ARE BEING CARRIED OUT UNDER THE CRITERIA ESTABLISHED BY PUBLIC LAW 98-265. THE DPA CRITERIA STATE THAT EXCEPT DURING PERIODS OF NATIONAL EMERGENCY DECLARED BY THE CONGRESS OR THE PRESIDENT, THE PRESIDENT MAY NOT EXECUTE A CONTRACT UNLESS THE FOLLOWING DETERMINATIONS ARE MADE: (1) THE MINERAL, METAL, OR MATERIAL IS ESSENTIAL TO NATIONAL DEFENSE: (2) WITHOUT PRESIDENTIAL ACTION UNDER AUTHORITY OF THIS ACT, UNITED STATES INDUSTRY CANNOT REASONABLY BE EXPECTED TO PROVIDE THE CAPABILITY FOR THE NEEDED MINERAL, METAL, OR MATERIAL IN A TIMELY MANNER; (3) PURCHASES, PURCHASE COMMITMENTS, OR OTHER ACTION PURSUANT TO THIS SECTION ARE THE MOST COST-EFFECTIVE, AND (4) THE UNITED STATES NATIONAL DEFENSE DEMAND FOR THE MINERAL, METAL, OR MATERIAL IS EQUAL TO, OR GREATER THAN, THE OUTPUT OF DOMESTIC INDUSTRIAL CAPABILITY WHICH THE PRESIDENT REASONABLY DETERMINES TO BE AVAILABLE FOR NATIONAL DEFENSE, INCLUDING THE OUTPUT TO BE ESTABLISHED THROUGH PURCHASE, PURCHASE COMMITMENT, OR OTHER ACTION.

PUBLIC LAW 98-265 ALSO AUTHORIZED THE INITIAL DOD FUNDING FOR PURCHASE GUARANTEES UNDER THE DPA RESULTING IN APPROPRIATIONS OF TEN MILLION DOLLARS IN FISCAL YEAR (FY) 1985 AND THIRTY-ONE MILLION DOLLARS IN FY 1986. WE ARE PROPOSING TWO PROJECTS FOR FY 1985: ESTABLISHMENT OF DOMESTIC HIGH PURITY SILICON CAPACITY NEEDED FOR MILITARY LASER DEVICES AND EXPANSION OF TRAVELING WAVE TUBE CAPACITY NEEDED FOR ELECTRONIC WARFARE SYSTEMS. OUR UNIQUE NEEDS FOR TITLE III ARE SPECIFICALLY FOR MILITARY APPLICAIONS CONTRACTS FOR FY 1985 PROJECTS WILL BE LET AFTER STATUTORY REQUIREMENTS HAVE BEEN FULFILLED. WE ALSO HAVE CANDIDATE PROJECTS UNDER REVIEW FOR FY 1986 FUNDING WHICH HAVE SPECIFIC NATIONAL DEFENSE APPLICATION.

OUR EFFORTS UNDER THE DPA ARE TO MEET A FEW EXTRAORDINARY NATIONAL DEFENSE NEEDS. IN FACT, THE PRESIDENT AND SECRETARY WEINBERGER HAVE MADE THEIR DEFENSE COMMITMENTS TO THE CONGRESS ASSUMING THAT THE DPA LEGISLATIVE AUTHORITIES WILL REMAIN AVAILABLE. THERE-FORE, THE ADMINISTRATION SEEKS A FIVE-YEAR EXTENSION OF THE DPA. FOR ESSENTIAL DEFENSE PURPOSES, THERE IS A CLEAR NEED FOR LONG-TERM STABILITY TO MEET BUDGET COMMITMENTS AND SCHEDULES. THERE-FORE, WE SEEK YOUR SUPPORT IN OBTAINING AN EXTENSION OF THE DPA.

THAT CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO RESPOND TO ANY QUESTIONS THE COMMITTEE MAY HAVE.

EXTENSION OF THE DEFENSE PRODUCTION ACT OF 1950

TESTIMONY OF

PAUL FREEDENBERG

ASSISTANT SECRETARY

FOR

TRADE ADMINISTRATION

U.S. DEPARTMENT OF COMMERCE

BEFORE THE SUBCOMMITTEE

ON ECONOMIC STABILIZATION OF THE

COMMITTEE ON BANKING, FINANCE,

AND URBAN AFFAIRS

UNITED STATES HOUSE

OF REPRESENTATIVES

JULY 24, 1986

EXTENSION OF THE DEFENSE PRODUCTION ACT OF 1950

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PRESENT THE COMMERCE DEPARTMENT'S AND THE ADMINISTRATION'S SUPPORT FOR A FIVE-YEAR EXTENSION OF THE DEFENSE PRODUCTION ACT.

I WOULD LIKE TO BEGIN BY EMPHASIZING THE IMPORTANCE TO OUR NATIONAL SECURITY OF THE AUTHORITIES CONFERRED UPON THE PRESIDENT BY THE ACT. ITS EXTENSION IS VITAL TO OUR CONTINUED DEFENSE POSTURE.

SINCE 1950, THE DEFENSE PRODUCTION ACT HAS FORMED THE BASIS FOR MUCH OF THE CIVILIAN SUPPORT CURRENTLY PROVIDED TO EXISTING NATIONAL SECURITY PROGRAMS AND ALLOWED US TO MAINTAIN THE NECESSARY LEVEL OF MOBILIZATION READINESS. WHEN FIRST ENACTED, ITS AUTHORITY WAS USED TO CARRY OUT VIRTUALLY ALL OF THE ECONOMIC MOBILIZATION MEASURES TAKEN DURING THE MILITARY ACTION IN KOREA. TODAY, THE AUTHORITY OF THE ACT IS USED BY VARIOUS AGENCIES TO IMPLEMENT A NUMBER OF IMPORTANT PROGRAMS WHICH SUPPORT OUR NATIONAL DEFENSE. LET ME USE MY AGENCY AS AN EXAMPLE.

WITHIN THE DEPARTMENT OF COMMERCE, THE AUTHORITY OF THE DEFENSE PRODUCTION ACT IS IMPLEMENTED LARGELY BY THE INTERNATIONAL TRADE ADMINISTRATION'S OFFICE OF INDUSTRIAL RESOURCE ADMINISTRATION (OIRA), UNDER MY JURISDICTION. THE PRESIDENT HAS ASSIGNED THE SECRETARY OF COMMERCE, BY DELEGATION THROUGH THE FEDERAL EMERGENCY MANAGEMENT AGENCY, THE PRINCIPAL RESPONSIBILITY FOR ADMINISTERING THOSE ASPECTS OF THE ACT WHICH AFFECT THE INDUSTRIAL RESOURCES OF THE UNITED STATES. DPA ACTIVITIES COMPRISE A LARGE PART OF THE OVERALL MOBILIZATION RESPONSIBILITIES FOR WHICH COMMERCE HAS AUTHORITY. THESE RESPONSIBILITIES EXTEND TO SUPPORT FOR CURRENT DEFENSE PRODUCTION AND TO INDUSTRIAL MOBILIZATION AND READINESS.

TITLE I OF THE ACT AUTHORIZES THE PRESIDENT TO REQUIRE INDUSTRY'S ACCEPTANCE OF AND PRIORITY PERFORMANCE ON CERTAIN DEFENSE CONTRACTS AND ORDERS, AND TO ALLOCATE MATERIALS AND FACILITIES IN SUPPORT OF CERTAIN DEFENSE AND ENERGY PROGRAMS. TO ACCOMPLISH THIS, OIRA ADMINISTERS THE DEFENSE PRIORITIES AND ALLOCATIONS SYSTEM (DPAS) TO ENSURE THE TIMELY DELIVERY OF DEFENSE ITEMS BY PROVIDING PRIORITY TREATMENT FOR THE PURCHASE OF FINISHED ITEMS, PRODUCTION MATERIALS, EQUIPMENT, AND SERVICES BY DEFENSE AGENCIES, CONTRACTORS, SUBCONTRACTORS, AND THEIR SUPPLIERS. THIS SYSTEM ALSO PROVIDES THE ADMINISTRATIVE MEANS BY WHICH THE TOTAL INDUSTRIAL RESOURCES OF THE UNITED STATES COULD BE MOBILIZED IN AN EMERGENCY.

THE DPAS REGULATION WAS PUBLISHED BY COMMERCE IN AUGUST 1984. IT IS A MAJOR SIMPLIFICATION OF TWO FORMER REGULATORY SYSTEMS ISSUED UNDER THE AUTHORITY OF THE DEFENSE PRODUCTION ACT. OUR REVISION CONSOLIDATED SIXTEEN SEPARATE RULES INTO ONE REGULATION. WE REMOVED MUCH DUPLICATION, MADE THE SYSTEM EASIER TO FOLLOW, AND WE ACCOUNTED FOR CHANGES IN THE WAY BUSINESS NOW OPERATES.

THE DPAS IS ALSO AN IMPORTANT STEP FORWARD IN OUR PROGRAM OF REGULATORY REFORM AND, AT THE SAME TIME, CONTRIBUTES SIGNIFICANTLY TO A STRENGTHENING OF OUR NATIONAL SECURITY. THE REGULATION AFFECTS ALL U.S. COMPANIES THAT SUPPLY ANY ITEMS, FROM RAW MATERIALS TO COMPLETED WEAPONS SYSTEMS, IN SUPPORT OF OUR NATIONAL DEFENSE PROGRAMS.

TITLE III OF THE ACT AUTHORIZES THE PRESIDENT TO SUPPORT THE EXPANSION OF THE NATION'S PRODUCTIVE CAPACITY TO MEET OUR NATIONAL DEFENSE NEEDS THROUGH A NUMBER OF MECHANISMS.

IN 1984, TITLE III WAS AMENDED TO REQUIRE THE ADMINISTRATION TO SUBMIT TO THE CONGRESS, AN ANNUAL REPORT ON THE IMPACT OF OFFSETS ON THE DEFENSE PREPAREDNESS, INDUSTRIAL COMPETITIVENESS, EMPLOYMENT, AND TRADE OF THE UNITED STATES. THE FIRST REPORT WAS SUBMITTED TO THIS COMMITTEE EARLIER THIS YEAR. AS YOU KNOW, THE COMMERCE DEPARTMENT WAS ASSIGNED LEAD RESPONSIBILITY IN PREPARING THE REPORT CHAPTER EVALUATING THE IMPACTS OF OFFSETS ON INDUSTRIAL COMPETITIVENESS.

THE ISSUE OF THE LONG RUN EFFECTS OF OFFSETS REMAINS A CONCERN, PARTICULARLY THE EFFECTS OF TECHNOLOGY TRANSFERS ASSOCIATED WITH OFFSETS ON U.S. EMPLOYMENT, TRADE, INDUSTRIAL COMPETITIVENESS, AND THE COST OF U.S. WEAPONS SYSTEMS.

TITLE VII OF THE ACT CONTAINS IMPLEMENTATION PROVISIONS AND PROVIDES AUTHORITY UNDER WHICH REPRESENTATIVES OF INDUSTRY AND OTHER INTERESTS MAY, WITH THE APPROVAL OF THE PRESIDENT, ENTER INTO VOLUNTARY AGREEMENTS SERVING DEFENSE PURPOSES WITHOUT VIOLATING THE ANTI-TRUST LAWS.

TITLE VII ALSO PROVIDES THE BASIC AUTHORITY FOR OPERATION OF THE NATIONAL DEFENSE EXECUTIVE RESERVE (NDER) -- A POOL OF INDIVIDUALS WITH PROVEN EXECUTIVE ABILITY WHO HAVE AGREED TO UNDERGO SPECIAL TRAINING TO PERFORM NECESSARY FEDERAL FUNCTIONS IN A NATIONAL EMERGENCY. THE NDER IS AN IMPORTANT ELEMENT IN OUR EFFORT TO DEVELOP PROGRAMS WHICH WOULD MAKE US CAPABLE OF FUNCTIONING EFFICIENTLY IN THE EVENT OF SUCH AN EMERGENCY. IN ADDITION, TITLE VII ALSO GRANTS THE AUTHORITY TO COLLECT INFORMATION FROM INDUSTRY ON A MANDATORY BASE TO SUPPORT THE ADMINISTRATION'S NATIONAL SECURITY PROGRAMS. FOR EXAMPLE, THE DATA FOR THE SECTION 309 OFFSET REPORT WAS IN PART COLLECTED UNDER THE AUTHORITY OF TITLE VII.

THE COMMERCE DEPARTMENT'S NDER PROGRAM AND DPA SECTION 705 DATA COLLECTION AUTHORITY ARE ALSO ADMINISTERED BY OIRA, WHICH IS RESPONSIBLE FOR ORGANIZING AND TRAINING INDUSTRY EXECUTIVES WHO CONSTITUTE THE INDUSTRIAL CHAPTER OF THE NDER AS WELL AS AUTHORIZING UTILIZATION OF INFORMATION COLLECTION TO SUPPORT THE DEPARTMENT'S DEFENSE INDUSTRIAL BASE PROGRAMS.

THE MISSIONS OF EACH OF THESE IMPORTANT PROGRAMS CONTRIBUTES TO MEETING THE BASIC OBJECTIVE OF THE DEFENSE PRODUCTION ACT, WHICH IS TO ASSURE THE TIMELY AVAILABILITY OF INDUSTRIAL PRODUCTS, MATERIALS, EQUIPMENT AND SERVICES VITAL TO A STRONG MILITARY READINESS POSTURE. THE DPA IS AN ESSENTIAL PART OF NATIONAL SECURITY PLANNING.

FOR SOME TIME NOW, CONGRESS, INDUSTRY, AND THIS ADMINISTRATION HAVE EXPRESSED SERIOUS CONCERN REGARDING THE CAPABILITY OF THE U.S. ECONOMY AND ITS INDUSTRIAL BASE TO MEET DEFENSE PRODUCTION DEMANDS IN AN EMERGENCY SURGE OR MOBILIZATION. THE DEFENSE PRODUCTION ACT AUTHORITIES ARE VITAL TO HELP ENSURE THAT THE RESOURCES AND INDUSTRIAL CAPACITY OF THE U.S. SATISFY NATIONAL SECURITY REQUIREMENTS.

HOWEVER, OUR MOBILIZATION READINESS WOULD BE LESS EFFECTIVE IF THE BASIC AUTHORITY TO DO SO IS CLOUDED BY UNCERTAINLY. SUCH UNCERTAINTY WOULD RESULT FROM AN INTERIM OR SHORT-TERM EXTENSION OF THE DPA. A SHORT EXTENSION PERIOD COULD RESULT IN AN INABILITY ON THE PART OF INDUSTRY AND GOVERNMENT TO PLAN EFFECTIVELY THE PRODUCTION SCHEDULES, INVENTORIES, AND CAPITAL INVESTMENT NEEDED TO KEEP THE INDUSTRIAL BASE HEALTHY AND COMPETITIVE IN THE WORLD MARKETPLACE. THE IMPORTANCE OF THIS CANNOT BE OVEREMPHASIZED SINCE THE STRENGTH OF OUR MILITARY DEFENSES IS INEXORABLY TIED TO THE ECONOMIC HEALTH OF OUR SUPPORTING INDUSTRIES.

ALREADY U.S. INDUSTRY SUFFERS FROM THE ECONOMIC FALLOUT OF SHORT-TERM RATHER THAN LONG-TERM PLANNING. U.S. INDUSTRIES DIRECTLY INVOLVED IN DEFENSE CONTRACTING SUFFER FROM THE UNCERTAINTY OF SINGLE-YEAR PROCUREMENT POLICIES WHICH STILL PREVAIL FOR MOST DEFENSE CONTRACTS. ADDING FURTHER UNCERTAINLY TO THE INDUSTRIAL SUPPORT PROGRAMS WITH POTENTIAL INTERRUPTION IN DPA AUTHORITY CAN ONLY MAKE THE SITUATION WORSE.

WE BELIEVE THAT THE MOST COST-EFFECTIVE AND LOGICAL APPROACH TO REVITALIZING AND MAINTAINING OUR DEFENSE INDUSTRIAL BASE IS TO SELECT SPECIFIC OBJECTIVES AND TARGET THEM THROUGH JOINT INDUSTRY-GOVERNMENT EFFORTS TO SOLVE IDENTIFIED PROBLEMS. THIS APPROACH MUST BE PLANNED, LONG-TERM AND DIRECTED. IT MUST EVOLVE AROUND A SOUND DEFENSE PROCUREMENT SYSTEM WITH STABLE PROJECTED REQUIREMENTS, MULTI-YEAR CONTRACTS AND FUNDING, AND SUFFICIENT LONG-RANGE GOALS TO ALLOW U.S. INDUSTRY TO DEVELOP COMPETITIVELY THE PRODUCTION CAPABILITY TO MEET DEFENSE NEEDS.

HAND-IN-HAND WITH THIS IS THE NEED FOR THE UNINTERRUPTED AUTHORITY OF THE DEFENSE PRODUCTION ACT TO CALL UPON AND DIRECT THAT CAPABILITY TO MEET PEACETIME OR MOBILIZATION REQUIREMENTS. FOR THIS REASON, THE ADMINISTRATION SUPPORTS EXTENSION OF THE ACT'S AUTHORITY FOR FIVE YEARS.

MR. CHAIRMAN, I WILL BE PLEASED TO RESPOND TO QUESTIONS FROM YOU AND OTHER MEMBERS OF THE SUBCOMMITTEE.

STATEMENT BY THE HONORABLE NORMAN D. SHUMWAY

On The Reauthorization of the Defense Production Act

Thursday, July 24, 1986

Thank you, Mr. Chairman, I would like to join you in welcoming our distinguished witnesses appearing today to discuss reauthorizing the Defense Production Act.

This reauthorization hearing gives us an opportunity to discuss the needs of our defense industrial base. If our defense dollars are to be spent efficiently and if we are to be adequately prepared in times of emergency, our economic base cannot be neglected.

As I have said in the past, the fundamental policy question as I see it, is to what degree the Federal Government should directly intervene to preserve the defense industrial base. Before this question can be answered, we need to be up-dated on the problems that may or may not exist. We also need to be up-dated on the role the DPA is now playing, before considering any efforts to reauthorize it.

For this reason, I join you in welcoming the witnesses this morning.

FEDERAL EMERGENCY MANAGEMENT AGENCY

RESOURCE MANAGEMENT: AN HISTORICAL PERSPECTIVE

EXECUTIVE SUMMARY

This report summarizes the principal lessons of past mobilizations, and identifies critical issues for resource management and organizational planning for future conflicts. As such, it is not a comprehensive historical narrative of prior mobilization experiences, but is an applied history document focusing on policy lessons and illustrations.

The organization of this report follows the structure of TASC's conceptual tool created for FEMA* that examines the interplay of economic and strategic factors involved in industrial mobilization. This organization places our observations in an overall framework which will facilitate application of the historical lessons to today's needs.

Perhaps the major conclusion drawn from our review is that resource management programs must be flexible and must be geared to the intensity of the conflict. "Limited" wars will require some increased resource management actions, although these actions may be severely constrained. Similar constraints may be applicable during the ambiguous early warning period preceding a major crisis. Development of limited resource management programs which avoid excessive or premature control and over-expansion while still providing the needed levels of resources may be the greatest challenge facing the resource management planner.

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*Dawson, H.S., et al., "Assessment of U.S. Industrial Mobilization Capability", The Analytic Sciences Corporation, TR-4532, July 1983.

No matter how effective mobilization plans are, time will be required to reorganize the economy to emphasize military production. Because the U.S. is unlikely to have the luxury it had in World War I and World War II, when hostilities had been underway for more than two years before the U.S. became involved, decision-making procedures must be established to allow action on warning to increase production prior to the onset of hostilities. The time required to mobilize U.S. industry can be reduced by effective planning, but the time still will be substantial. This requirement for time is especially valid in the case of preparatory actions, because they inherently will be actions taken on ambiguous signals, subject to lack of public consensus, and therefore, somewhat tentative.

The need for pre-conflict preparatory actions suggests the need for mechanisms to harness latent industrial capacity prior to conflict. Such preparatory actions probably would include "surging" the production of military items already being produced. However, a decision to surge current military production, if taken primarily to avoid the necessity to mobilize, might be counterproductive. The time consumed by the surge period would be lost to the slower but more substantial processes of industrial mobilization. If coordinated with early preparatory actions, surge may reinforce and accelerate industrial mobilization. However, if surge is undertaken in isolation, it may very well retard the processes of industrial mobilization.

Pre-war planning requirements also should allow for flexibility. Excessively rigid planning requirements are likely to be wrong. Frequently, they will be too low, but this will not always be the case; planners have at times provided "unconstrained" requirements far in excess of what was feasible. Additionally, demand from the civil sector and

possibly from Allies is as important for resource management as military requirements. Planning for resource management while ignoring these two components of overall demand will yield artificially low requirements. Given the uncertainty as to how a conflict might develop, in terms of both scale and timing, TASC has concluded that requirements should remain flexible. This has an impact on resource planning, for such planning cannot be performed against a single requirement, but instead must consider the capability to meet a variety of potential requirements.

For major increases in production, strong resource management actions are necessary. Relatively simple systems, such as the existing priorities, allocations, and special assistance systems, can work effectively if resources are not in extremely short supply, but if major shortages and bottlenecks emerge, these existing systems will be rapidly overwhelmed. History has shown that resource shortages tend to cascade through the economy and impact on all programs if they are not resolved promptly. The most difficult problems for resource managers often have been during the period of transition from low levels of control to total control. Resource management efforts involve extremely sensitive political and economic issues.

In a major mobilization, existing defense capacity is considerably less important than the ability to harness new capacity efficiently, in the form of expansion and conversion. This historical experience remains valid today, although the permanent defense sector is now much larger than that available at the onset of prior mobilizations.

Mechanisms are needed not only to control resources, but also to pay for facility expansion and conversion.

Especially before a conflict begins, prospective contractors will be reluctant to infringe on their existing production and financial positions. They will undertake expansion or conversion on their own only very reluctantly without some assurance that their efforts will be reimbursed.

The impact of the political process on industrial mobilization is all too frequently ignored by planners. No evidence suggests that the normal political processes are adjourned during mobilization; if anything, political and bureaucratic controversies became more pronounced during past mobilizations. The political process can have a major impact on the structure and implementation of resource management programs.

Based on our historical survey, we have concluded that the specific organizational configuration created to manage industrial mobilization is only of secondary importance. Stability and continuity of organizations and functions during the transition from peace to war is desirable, but many different configurations have been attempted, representing divergent policies and approaches. Several of these worked successfully.

This is not meant to imply that organizational questions are unimportant. One significant requirement is for a single, central coordinating authority who has the power to rationalize military, civilian, and allied requirements. Implementation of central policy decisions can be delegated or centralized, and organizations can otherwise be flexible, but there must be a single central focus to orchestrate production, to control the flow of resources, and to resolve conflicts.

Peacetime mobilization planning should concentrate heavily on the tasks to be performed and the manner of

performing the tasks, and relatively little on specific organizational structures to perform the task. Planning for organizations must remain flexible enough to accomodate differing Presidential policies and organizational approaches.

The need for flexibility also applies to planning for legislative authorities. Principal attention must be given to what can be done within the framework of existing legislation. Planners often assume that the first step in executing mobilization is to obtain a broad, omnibus emergency powers statute from Congress. Congressional action on any proposal is difficult to predict, and historical experience shows that important preliminary measures have always been implemented without requesting additional authority. Actions that can be taken within the existing statutory framework are especially important during the pre-conflict phases, when Congress may be less willing to consider new grants of authority. Even after war begins, however, the examination of history shows a continuation of the turbulence, unpredictability, and special interest representation in the legislative process that are part and parcel of American politics.

For all the reasons enumerated earlier, a principal lesson for mobilization planners is that mobilization resource management and organizational plans must be flexible. Mobilization, in all likelihood, will not be executed in exactly the same way the plans contemplate (and, correspondingly, the more detailed and inflexible the plans are, the more likely they are to be "wrong"). Plans must be written with enough flexibility to permit different Presidential or legislative branch approaches. They must accomodate a wide range of possible requirements. They must be designed to be implemented by any of a variety of organizations. Otherwise, these plans run the risk of irrelevance.